MEETING
SDRS BOARD OF TRUSTEES

September 4, 2014

The Board of Trustees of the South Dakota Retirement System held its regular meeting on September 4, 2014. The meeting began at 8:30 a.m. in the downstairs conference room at View 34, Pierre, South Dakota.

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BOARD MEMBERS IN ATTENDANCE:

Elmer Brinkman, Chair
Karl Alberts
Jilena Faith
Laurie Gill
Laurie Gustafson
James Hansen
James Johns
Louise Loban
Bonnie Mehlbrech
Dave Merrill
Lt. Governor Matt Michels
KJ Peterson
Eric Stroeder
Justice Steven Zinter
Matt Clark, Ex Officio

Board members Steve Caron and Jason Dilges were absent.

OTHERS IN ATTENDANCE:

Kayla Bastian, SDBOR
Kevin Burbach, Associated Press
Deene Dayton
Hank Koster, SDRTA
June Larson, Nationwide Retirement
Bob Mercer, Newspapers
Eric Ollila, SDSEO
Aaron Olson, LRC
Tammy Otten, SDIC
Ruth Rehn, Legislative Candidate – District 24

Paul Schrader, Consultant
Dave Slishinsky, Buck Consultants
Mike Studebaker, Nationwide Retirement
Sandra Waltman, SDEA
Don Zeller, Self
Rob Wylie
Travis Almond
Doug Fiddler
Susan Jahraus
Michelle Mikkelsen
Jess Reitzel
Jane Roberts
Dawn Smith
Jacque Storm

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

AGENDA ITEM 1
OATH OF OFFICE FOR BOARD OF TRUSTEE MEMBERS

Summary of Presentation
The Oath of Office was administered by Chair Elmer Brinkman to Jilena Faith, James Johns, and Bonnie Mehlbrech.

AGENDA ITEM 2
APPROVAL OF JUNE 5, 2014, MEETING MINUTES

Board Action
IT WAS MOVED BY MR. ALBERTS, SECONDED BY MR. MERRILL, TO APPROVE THE MINUTES OF THE JUNE 5, 2014, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEMS 3 & 4
REPORT FROM NOMINATING COMMITTEE
& ELECTION OF CHAIR & VICE-CHAIR

Summary of Presentation
Ms. KJ Peterson, chair of the Nominating Committee, stated that it was the recommendation of the Nominating Committee to nominate Elmer Brinkman as Chair of

the SDRS Board of Trustees. It was also the recommendation of the Nominating Committee to nominate Justice Zinter for the office of Vice-chair.

Board Action
CHAIR
IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. LOBAN, THAT NOMINATIONS CEASE AND A UNANIMOUS BALLOT BE CAST FOR ELMER BRINKMAN AS CHAIR OF THE SDRS BOARD OF TRUSTEES. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

VICE-CHAIR
IT WAS MOVED BY MS. PETERSON, SECONDED BY MS. LOBAN, THAT NOMINATIONS CEASE AND A UNANIMOUS BALLOT BE CAST FOR JUSTICE STEVEN ZINTER AS VICE-CHAIR OF THE SDRS BOARD OF TRUSTEES. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 5
UPDATE OF SDRS FY2014 FINANCIAL STATUS

Summary of Presentation
SDRS Membership & Experience Report
Distributing copies of a handout, Mr. Rob Wylie, Executive Director/Administrator, SDRS, advised that SDRS consists of not only the state as an employer, but also school districts, cities, counties, and other participating public entities in South Dakota.

Mr. Wylie explained that the handout has breakdowns of the categories of employers, total membership, how the membership is broken out between the separate groups of active, inactive, and retired members, and the amount of money that SDRS pays in benefits. He noted that SDRS now had over 79,000 members and pays out over $421 million annually in retirement benefit payments.

Investment Performance
Ms. Tammy Otten, Assistant State Investment Officer, SDIC, informed the Board that SDRS's net annualized return for the one-year period ending June 30, 2014, was 18.9 percent. Ms. Otten noted that over the past 10 years the average net SDRS investment return was 8.96 percent.

Ms. Otten stated that against the Callan Public Fund Sponsor - Public, SDRS ranked fourth with one being the best and 100 being the worst. Against the Callan Corporate Funds - Large, SDRS ranked tenth.

SDRS Projected Funded Status
Mr. Douglas Fiddler, Senior Actuary, SDRS, informed the Board that the projected market value funded ratio for June 30, 2014, prior to the pending mortality change was approximately 115 percent and the projected actuarial value funded ratio was 100 percent. The cushion is projected to be $1,373 million and the risk management contribution $40 million. After the pending mortality change, the projected market value funded ratio would decrease to approximately 108 percent and the projected actuarial value funded ratio would remain at 100 percent. The cushion would be projected at $819 million with the risk management contribution projected to be $27 million.

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 market 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 market value funded ratio and slowly grow the cushion. If SDRS were to utilize the cushion, each rate would decrease to 6.39 percent. Returns of 6.39 percent will exhaust the cushion and decrease the market value funded ratio to 100 percent over 10 years.

Board Action
No action was necessary.

AGENDA ITEM 6
CEMENT PLANT RETIREMENT FUND/FINAL ACCOUNTING

Summary of Presentation
Mr. Wylie stated that the Cement Plant Retirement Fund has completely been consolidated into SDRS and is therefore no longer an independent body. To make sure that everything was done correctly in the consolidation, Legislative Audit performed an agreed upon procedures audit and found everything happened correctly both in the valuation and compliance with South Dakota law.

Ms. Jane Roberts, Chief Financial Officer, SDRS, noted that the beginning balance in the fund in July 2013 was $54,180,881.84. Throughout the year there were management fees, contributions, benefit payments, investment return, and the final appropriation of $5,598,495 on April 1, 2014, to bring it to full funding. With everything included, the fully funded value of the Cement Plant Retirement Fund that was rolled into SDRS was $66,451,839.73.

Mr. Fiddler stated that the estimated funded status of the Cement Plant Retirement Fund on April 1, 2014, was 108.1 percent using the CPRF assumptions. If the SDRS assumptions would have been used the funded status would have been 116.1 percent under the current assumptions, or 109.8 percent with the proposed mortality change assumption. That compares extremely well to SDRS' funded status percentage of 115 under current assumptions and 108 percent with the proposed mortality change assumption.

Board Action

No action was necessary.

AGENDA ITEM 7
RECOMMENDED CHANGE TO SDRS MORTALITY TABLE

Summary of Presentation

Mr. Dave Slishinsky, Principal and Consulting Actuary, Buck Consultants, stated that an experience study was prepared for SDRS in 2011 and 2012 covering the period from June 30, 2005, through June 30, 2011. Several actuarial assumptions were changed as a result of the experience analysis including modifying the mortality assumption for males. SDRS mortality experience indicated the new mortality assumption provided a small margin for future mortality improvement based on the experience study period.

The RP-2000 mortality table is the most commonly used mortality table today for pension actuarial valuations, advised Mr. Slishinsky. Recent studies have shown mortality improvement has accelerated significantly since 2000 and the Society of Actuaries published exposure drafts in February of 2014 of a new base table, RP-2014 and a new mortality projection scale, MP-2014. Some have questioned the reliability of the data used in the study as 70 percent of the data collected was not used. The final report is scheduled for release by October 31, 2014, and is expected to address the comments.

Scale AA is currently the most widely used projection scale, stated Mr. Slishinsky, but recent data has shown significantly more mortality improvement than Scale AA reflects. Scale BB was issued in September, 2012 as an interim measure, reflecting updated mortality improvement data, and is the projection scale used by some retirement systems.

Mr. Slishinsky noted that a mortality assumption can be static or generational. The Actuarial Standards of Practice require "consideration of future mortality improvement" and the Buck recommended practice is a fully generational projection. SDRS' current static mortality assumption was set after the 2012 experience study with a small margin for future improvement and was acknowledged as a first step. If mortality improvement continues, the margin for future improvement will dissipate and SDRS will experience a trend of liability losses due to increasing life expectancies.

Mr. Slishinsky stated that SDCL 3-12-121 requires that an actuarial valuation "be based on actuarial assumptions adopted by the Board of Trustees as a result of an actuarial experience analysis." During the last actuarial experience analysis, Buck stated that the best practice was to recognize experience and consider improving mortality by establishing assumptions that will not be biased towards gains or losses.

The statute goes on to state that "the board may not make any change in the actuarial assumption unless the approved actuary retained to make the actuarial valuation certifies that the change is reasonable." Therefore, advised Mr. Slishinsky, Buck recommends SDRS adopt the PR-2000 Employee, Combined Healthy, and Disabled Retiree Mortality Tables, projected by Scale BB on a fully generational basis, effective for the June 30, 2014, actuarial valuation. This change will make SDRS one of the most conservative statewide retirement systems for both mortality and discount rate assumptions.

The cost impact of making the mortality assumption change, stated Mr. Slishinsky, would increase the actuarial accrued liability by $554 million to $9,717 million; decrease the market value funded ratio from 115 percent to 108 percent; and increase the normal rate to 10.904 percent from 10.118 percent. The cushion would decrease to $819 million and the risk management contribution amount would go from $40 million prior to the change to $27 million after the change.

This recommendation also proposes an amendment to the actuarial equivalent definition under SDCL 3-12-47(3) to remove the reference to the 1975 mortality table and a seven percent interest rate, replacing it with the actuarial assumptions adopted by the Board pursuant to SDCL 3-12-121. The intent is to allow the Board to set the actuarial assumptions for benefit payment purposes that are consistent with the actuarial assumptions used in the annual valuation.

Board Action
IT WAS MOVED BY MS. LOBAN, SECONDED BY DR. HANSEN, TO ACCEPT THE BUCK RECOMMENDATION AND ADOPT THE RP-2000 EMPLOYEE, COMBINED HEALTHY, AND DISABLED RETIREE MORTALITY TABLES, PROJECTED BY SCALE BB ON A FULLY GENERATIONAL BASIS, EFFECTIVE FOR THE JUNE 30, 2014, ACTUARIAL VALUATION, AS WELL AS ADOPTING EVERYTHING PRESENTED IN THE APPENDIX OF THE PRESENTATION. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

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

Pursuant to SDCL 3-12-121, Buck certifies that this change is reasonable, taking into consideration recent SDRS experience and expected future mortality improvement.

AGENDA ITEM 8
CONTINUING RISK MANAGEMENT
AND SUSTAINABILITY DISCUSSIONS

Summary of Presentation

Mr. Fiddler reviewed the projected funded status and risk management contribution (RMC) as of June 30, 2014. He stated that the RMC effectively reduced the investment income required each year. The estimated RMC for FY 2015 was $27 million, 1.57 percent of pay, or .25 percent of assets. The effective investment return assumption was therefore lowered by .25 percent from 7.25/7.50 to 7.0/7.25. The cushion also provided a temporary additional reduction to the investment income required, because a portion of the cushion will be used up each year returns are less than assumed.

Mr. Fiddler stated that returns equal to the nominal assumption (7.25/7.50 percent) will grow the cushion and the market value funded ratio (MVFR). Returns adjusted for the RMC (7.0/7.25 percent) will maintain the MVFR and slowly grow the cushion. Returns of 6.39 percent will exhaust the cushion and decrease the MVFR to 100 percent over 10 years.

The minimum average annual net investment return required to maintain 100 percent market value funded ratio over a one year period would be a negative 1.22 percent. The likelihood of meeting or exceeding that return based on the SDIC outlook is 71 percent. The percentage of SDRS historical periods from 1974-2013 meeting or exceeding that return is 87.5 percent. For the five-year period the return would need to be 5.48 percent. The likelihood of meeting or exceeding that based on the SDIC outlook is 60 percent and the percentage of SDRS historical periods from 1974-2013 meeting or exceeding that return is 83.3 percent. Over the 10-year period those percentages are 6.39, 56.3, and 93.5 percent respectively.

Mr. Fiddler stated that based on the 18.5 percent net investment return for FY14, and after consideration of the mortality change, all of the SDRS funding objectives were met or exceeded.

Looking back over the past 15 years, advised Mr. Fiddler, the net investment return has been less than the assumption six of those years. Looking at the first half of this period, 2000-2007, Mr. Fiddler noted that in 2000 SDRS had a funded ratio of 126 and $700 million in the cushion. The period of 2001-2003 saw an average return of negative 4 percent. The funded ratio was reduced to 99 percent with virtually no cushion left. From 2004-2007 the average return was 16 percent. That brought the market value funded ratio back up to 131 percent (124 percent after benefit improvement) and was very close to where the period started in 2000.

For the second half of those 15 years (2008-2014), advised Mr. Fiddler, the first two years saw a negative 30 percent return and the funded ratio dropped to 76 percent. Section 3-12-122 conditions were met resulting in a $1.1 billion deficit. After the corrective actions in 2010 there was still a $623 million deficit. For the remaining 5 years, SDRS again earned an average of 16 percent. During the 15-year period there were two similar recoveries; however, the period started with a 126 percent market value funded ratio and ended with a 108 percent market value funded ratio.

Mr. Fiddler stated that the corrective actions in 2010 and net annual investment returns averaging over 16 percent from 2010-2014 have allowed SDRS to pay off all unfunded liabilities, strengthen both the investment return and mortality assumptions, and maintain a fully funded system with a significant cushion and RMC reducing the investment returns required.

If history repeats itself, advised Mr. Fiddler, and the total net investment losses for FY 2015-2017 match the FY 2001-2003 period, the June 30, 2017, MVFR will decrease to 85 percent. The SDCL 3-12-122(3) condition will be met, SDRS will have a deficit of $1.679 billion, and GASB will require that $1.679 billion liability on SDRS employers' balance sheets. The average net annual investment return required for the next ten years to return to a 100 percent MVFR would be 9.3 percent. To remain above the corrective actions threshold of 80 percent MVFR the SDRS returns would need to be 7.2 percent over the same period.

Likewise, if net total investment losses for FY 2015-2016 match the FY 2008-2009 period, the MVFR at June 30, 2016, would be 67 percent before corrective actions. All of the conditions of SDCL 3-12-122 would be met and corrective actions reducing the accrued liability by $1.650 billion would be necessary to meet the 80 percent MVFR minimum threshold. There would be unfunded liabilities of $356 million in addition to the necessary corrective actions, requiring amortization payment that reduces the RMC by 88 percent (from 1.57 percent to 0.18 percent of salary). There would also be a deficit of $1.426 billion in addition to the necessary corrective actions. Additionally GASB will require $3.432 billion of liability on SDRS employers' balance sheets ($1.782 billion if corrective actions are made). Average net annual investment returns of 10 percent would be required for the next 10 years to return to a 100 percent MVFR if corrective actions are made. Likewise, the average net annual investment returns of 8 percent would be required over the next 10 years to remain above the 80 percent MVFR threshold for additional corrective actions.

What happens in a severe one-year economic downturn, asked Mr. Fiddler. Based on the SDIC outlook, there is a 5 percent chance of net investment losses of 17.8 percent or worse in one year. If net investment losses for FY 2015 are 17.8 percent the MVFR would be 83 percent on June 30, 2015. The SDCL 3-12-122(3) condition would be met; there would be a deficit of $1.684 billion; unfunded liabilities of $40 million, requiring amortization payment that reduces the RMC by 10 percent (from 1.57 percent to 1.41 percent of salary); and GASB would require $1.724 billion worth of liability on the SDRS employers' balance sheets. Average net annual investment returns of 9.4 percent would be required to return to a 100 percent MVFR or 7.3 percent to remain above the corrective actions threshold of 80 percent MVFR for the next 10 years.

Mr. Fiddler stated that the main point is that SDRS is not as well prepared as it was going into both of the previous economic down turns. If any of the above happens at this point, it is going to have more severe consequences than either of those previous periods did.

Mr. Schrader stated that SDRS was well funded but that markets were viewed as fully priced, or slightly over priced, and a significant downturn was always possible. The SDRS funded status has not returned to the very high levels enjoyed in the late 90's and early 2000 period. Meanwhile, low inflation outlooks have contributed to lower future projected investment returns that historical averages. SDRS continues to mature and any volatile investment returns may result in large swings in funded status.

Mr. Schrader emphasized that changes in the investment return assumption and mortality table recognize added conservatism up front, but deplete the cushion and increase the normal cost, and in the short run, increase the chances the System will not remain fully funded.

There are several options that could be considered, advised Mr. Schrader. One would be to make no changes to SDRS now but to develop a plan to recommend changes when and if necessary based on different scenarios of possible future unfavorable experience. Others would be to consider only issues related to equity/subsidies/unexpected costs; consider benefit changes now for new members to lower the fixed cost of SDRS and meet other benefit objectives, provide for an additional benefit funded only when advisable – a variable benefit, and increase the RMC over time. The Board could also consider some of those changes for existing members, but for future service only.

Some of the arguments for considering benefit changes now, stated Mr. Schrader, are that planning has served SDRS well including developing a plan for bad times when times are good and vice versa. Investment returns are volatile and markets are high with significantly higher than expected returns for the last five years. The 2010 corrective actions were painful and future corrective actions should be avoided as much as possible, however, the maturity of the plan makes crossing SDCL 3-12-122 thresholds more likely. The rating agencies, GASB, South Dakota culture, and good fiscal management put a premium on maintaining a fully funded system.

There is also concern over equity/subsidies/unexpected costs. The System must consider changes to meet changing employment patterns and employer workforce needs. A greater use of flexible features protects the System if needed, but members would be no worse off if experience was as expected. Life expectancy increases have provided recent/current members with an effective benefit increase compared to earlier SDRS members. Mr. Schrader noted that change can be positive and provide a better mix of benefits to meet member needs.

Mr. Schrader stated that along with the arguments for, there are also arguments against considering benefit changes now. Some of those arguments include:

- SDRS is well funded and changes are not appropriate to consider;
- SDRS is a good example of best practices and changes are not needed;
- Inequities and subsidies are not a serious issue;
- Changes are disruptive and potentially cause “haves” and “have-nots”;
- Changes should only be considered when and if SDCL 3-12-122 applies;
- SDRS has an obligation to members to provide the best benefits affordable; and
- SDRS’ credibility would suffer if changes were proposed now.

After filling out a brief survey, Board discussion followed.

Board Action
No action was necessary.

AGENDA ITEM 9
PENSIONOMICS

Summary of Presentation
Mr. Wylie stated that defined benefit pension benefits not only provide a secure source of income for many retired Americans, they also contribute substantially to state and national economies. Reliable pension income can be especially important not only in providing retirees with peace of mind, but in stabilizing local economies during economic downturns.

Expenditures made by retirees of state and local government provided a steady economic contribution to South Dakota communities and the state economy. Mr. Wylie noted that in 2012, over 26,200 residents of South Dakota received a total of $456.1 million in pension benefits from state and local plans. The average pension benefit received was $1,450 per month or $17,400 per year.

Mr. Wylie stated that retiree expenditures stemming from state and local pension plan benefits supported 6,450 jobs in the state. The total income to state residents supported by pension expenditures was $260.5 million. In 2012 retirees' expenditures from these state and local pension benefits supported a total $887.1 million in total economic output in the state, and $464.7 million in value added in the state. The $410.4 million in direct economic impacts were supported by retirees' initial expenditures. An additional $298.7 million in indirect impact resulted when these businesses purchased additional goods and services and $178.1 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Each one dollar in taxpayer contributions to South Dakota's state and local pension plans supported $11.77 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits - investment earnings and employee contributions finance the majority.

Mr. Wylie stated that the state and local pension benefits support a significant amount of economic activity. The South Dakota culture and economy result in the highest benefit multiplier in the nation. The SDRS design and investment experience together with the high benefit multiplier result in the highest total economic output per taxpayer contribution in the nation; in other words, South Dakota is getting the greatest bang for the buck.

Board Action
No action was necessary.

AGENDA ITEM 10
SUPPLEMENTAL RETIREMENT PLAN

Summary of Presentation
Annual Service Report
Ms. June Larson, Program Director, and Mr. Mike Studebaker, Regional Vice President, Nationwide Retirement Solutions, reviewed the plan membership information for the Supplemental Retirement Plan and the Special Pay Program.

Ms. Larson noted that the employer must elect to join the auto enrollment provisions and currently 47 local employers, the executive branch of state government, and seven other state entities have joined. From July 1, 2013, through June 30, 2014, there have been 2,491 new hires auto-enrolled into the SRP and, to date, only 150 of them have opted out of the plan.

Mr. Studebaker stated that there are currently 16,153 members in the SRP. Of that number, 9,745 are actively deferring, 5,826 have assets but are not deferring, and 582 are in payout status. He advised that the number of actively deferring as well as inactive participants continues to grow, which is a good sign.

Ms. Larson noted that the Roth program which was just started July 1, 2013, currently had 417 participants.

Ms. Larson stated that in the Special Pay Program, there are 2,324 participants with total assets of over $36M. There are currently 116 participating employers.

Investment Portfolio Review
Mr. Clark advised the Board that the Investment Council was not recommending changes to the SRP portfolio this year.

Behavioral Economics
Mr. Studebaker stated that inertia is one reason people fail to save. People are accustomed to a particular lifestyle, especially those that are younger with lower to middle income. Most have a disinterest or lack of information on financial topics.

In Nationwide's 457s, advised Mr. Studebaker, inertia shows up in the investment selection as 80 percent of people never change their investment mix, noting that automatic enrollment with opt out works best.

Mr. Studebaker noted that in an August 2014 Fidelity study, 74 percent of employers said one of the top challenges that creates savings inertia is low interest in retirement topics. Fidelity plans with auto enrollment have an 84 percent participation rate versus 53 percent without.

A JP Morgan study in July 2014, stated that 56 percent of plan sponsors are not aware of fiduciary protection for conducting "re-enrollment" to get more people in the plan and discuss investment options with defaulted participants.

Likewise, a Workforce.com study also from July 2014, stated that many workers don't sign up for the plan because they don't know how much or where to invest. (inertia)

Savings Initiative
Mr. Wylie stated that SDRS' income replacement goal is 55 percent of final average pay from SDRS for a career employee, (Career employee is 30 years of service for Class A; 25 years of service for Class B Public Safety; and 20 years of service for Class B Judicial), a personal savings goal of at least 100 percent of annual pay at retirement (would provide additional income replacement of 3-4 percent of pay), with a total income replacement goal of at least 85 percent of final average pay from all sources (SDRS, personal savings, and Social Security.

The SDRS income replacement based on a career employee for all service prior to 2008 is 51 percent for Class A, 60 percent for Class B PS, and 68 percent for Class B Judicial.

For members with 6 years at the post-2008 benefit formula, those replacements are 50, 58, and 66 percent respectively.

However, advised Mr. Wylie, actual SDRS income replacement based on average service (Class A – 22 years, Class B PS – 21 years, and Class B Judicial – 19 years) for all service prior to 2008 is 37, 50, and 66 percent respectively. For members with 6 years at the post-2008 base benefit formula, those replacements are 37, 48 and 63 percent respectively. The SDRS benefits are based on the average service and actual benefit formulas assuming retirement in 2014.

Mr. Wylie stated that SDRS currently has two savings alternatives, the Supplemental Retirement Plan (SRP) and the Special Pay Plan (SPP). The SRP is a voluntary savings plan of both before tax and Roth monies. It is the primary savings vehicle to achieve the Board's 100 percent of salary goal. The SPP is an employer option with mandatory employee participation and is funded by the termination pay of members. This consists of lump sum accrued sick and annual leave, contract buyouts, retirement incentives, and all other lump sum payments at termination. In some circumstances this pay may provide 25 percent of the personal savings goal.

In summary, advised Mr. Wylie, when considering career employment, SDRS, Social Security, and modest personal savings combine to meet the Board of Trustees' targeted income replacement goals. However, when considering average service, targeted income replacement goals are not achieved. Therefore SDRS members who do not work a full career will need additional retirement income, which the SDRS savings plans can help fill.

Board Action

It was a consensus of the Board for staff to prepare draft legislation providing for auto escalation in the Supplemental Retirement Plan.

AGENDA ITEM 11
REVIEW OF SDRS MEMBER ISSUES FILE

Summary of Presentation

Mr. Wylie stated that as normal procedure, changes to the benefit structure of SDRS all go the member issues file. Because the changes to the disability and pre-retirement survivor benefit structure were passed by the Legislature, the Board may choose to remove the member issues related to them or remove them at a later date once they are effective.

Board Action
IT WAS MOVED BY MS. LOBAN, SECONDED BY MR. ALBERTS TO REMOVE MEMBER ISSUE NUMBERS 2006-2 – ACTIVE MEMBER DEATH SURVIVOR BENEFIT; 2013-1 – PRE-RETIREMENT SURVIVOR BENEFITS; AND 2013-2 – DISABILITY BENEFITS FROM THE MEMBER ISSUES FILE. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 12
POTENTIAL 2015 LEGISLATION

Summary of Presentation
Ms. Jacque Storm, SDRS General Counsel, stated that at the June Board meeting, the Board requested legislation to provide that the SDRS administrator have a permanent appointment on the South Dakota Investment Council. Currently the Board of Trustees is required to make an annual appointment to the SDIC. This amendment would provide that the administrator of SDRS be a permanent member of the SDIC much like the state treasurer and commissioner of school and public lands currently are. One item to note, however, is that the governing statute is not in SDRS chapter 3-12 but in Title 4, Public Fiscal Administration.

Mr. Wylie stated that it was his recommendation that the Board not follow through with this proposed legislation and instead continue to make the annual appointment each year in June.

Ms. Storm noted that often, as laws are written, it is not possible to provide for every circumstance or think through every possible implication of the law change. Staff has brought two such examples. The first would provide a consistent refund methodology for a member and a member's beneficiary. SDCL 3-12-110 applies after a member dies and all benefits payable have been paid. Under that section, the amount of the refund is tied to the date the member died. The beneficiary would get 85 percent of the employer's contribution for any member dying after July 1, 2010. As an example, if Member A terminated employment in 2009, died tomorrow, and left no surviving spouse or dependent, SDRS would pay the beneficiary 100 percent of Member A's contributions and 85 percent of the employer's contributions per SDCL 3-12-110. However, if Member A, rather than dying, chooses a refund, the amount of the refund is dependent on when the member terminated employment, which is 2009. The refund would be calculated by using the definition of accumulated contributions, SDCL 3-12-47(2), which provides that a member who has more than 3 years of service and whose contributory service ended prior to July 1, 2010, receive 100 percent of the employee's and employer's contributions. Therefore, member A receives 100 percent of both the member's and employer's contributions.

This proposed legislation would provide a consistent refund methodology for the member and the member's beneficiaries by paying according to termination date in either situation. All refunds under SDCL 3-12-110 would follow the accrued benefits definition in SDCL 3-12-47, providing 100 percent of both the employee's and employer's contributions to a member who terminated prior to July 1, 2010, or to that member's beneficiary.

The second piece of proposed legislation, stated Ms. Storm, relates to overpayments. This proposed legislation would limit the look back period and/or provide discretion to waive repayment of an overpayment in limited, extraordinary circumstances.

The final piece of proposed legislation revises certain definitions in SDCL 3-12-47. Those definitions are actuarial equivalent, approved actuary, and Internal Revenue Code.

Board Action
It was a consensus of the Board to direct staff to draft legislation for the December meeting for everything discussed with the exception of the administrator appointment to SDIC.

AGENDA ITEM 13
OLD/NEW BUSINESS

Summary of Presentation
Potential Interim Retirement Laws Committee Meeting
Mr. Wylie stated that there would not be an interim Retirement Laws Committee meeting this year after the Governor's budget address.

GASB Compliance
Mr. Wylie stated that GASB 67 in now implemented. This year's CAFR will be compliant with 67.

Actuarial Update
Mr. Wylie stated that this was Doug Fiddler's first meeting as a staff member of SDRS.

Upcoming Board Meeting Dates
Mr. Wylie stated that the next meeting dates were December 3 & 4, 2014, however, only one day would be needed.

Board Action
No action was necessary.

ADJOURNMENT

IT WAS MOVED BY MR. MICHELS, SECONDED BY MR. MERRILL, 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