

REGULAR MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

December 3, 2020

The Board of Trustees of the South Dakota Retirement System held their regular meeting on December 3, 2020. The meeting began at 9:00 a.m. via Skype conference call.

BOARD MEMBERS IN ATTENDANCE:

James Johns, Chair
Eric Stroeder, Vice Chair
Karl Alberts
James Appl
Annette Brant
Penny Brunken
Liza Clark
Matt Clark – Ex Officio
Kathy Greenway
Laurie Gustafson
James Hansen
Myron Johnson
Kevin Merrill
Justice Mark Salter
Darin Seeley
Glen Vilhauer
Doug Wermedal

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OTHERS IN ATTENDANCE:

Larry Langer, CavMac
Lealan Miller, Eide Bailly
Tammy Otten, SDIC
Paul Schrader, Consultant
Travis Almond
Brittnie Adamson
Jane Beer
Doug Fiddler
Sam Koldenhoven
Michelle Humann
Michelle Mikkelsen
Jessica Reitzel

Dawn Smith
Jacque Storm

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

AGENDA ITEM 1
CHAIR'S PRELIMINARY REMARKS

Summary of Presentation

Chair James Johns asked the board for any conflict disclosures. There being none, the Chair then explained the policy concerning the public testimony.

Board Action

No action was necessary.

AGENDA ITEM 2
APPROVAL OF SEPTEMBER 3, 2020, MINUTES

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MS. GUSTAFSON, TO APPROVE THE MINUTES OF THE SEPTEMBER 3, 2020, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

AGENDA ITEM 3
SDRS FINANCIAL STATEMENTS
FOR THE PERIOD ENDING JUNE 30, 2020

Summary of Presentation

Ms. Jane Beer, SDRS Chief Financial Officer, presented the SDRS Financial Statements for the period ending June 30, 2020. Ms. Beer stated that there was \$263 million in total contributions and over \$625 million in total benefits and refunds paid. There were 497 participating employers and SDRS had over 92,000 members.

Board Action

No action was necessary.

AGENDA ITEM 4
SDRS FINANCIAL AUDIT
FOR PERIOD ENDING JUNE 30, 2020

Summary of Presentation

Mr. Karl Alberts, chair of the Audit Committee, stated that the audit committee had a conference call with the Eide Bailly to review the external auditor's findings of SDRS, the SDRS Supplemental Retirement Plan (SRP), and the Special Pay Plan (SPP) for the fiscal year ending June 30, 2020.

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, 2020.

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. APPL, SECONDED BY MR. VILHAUER, TO ACCEPT THE FINANCIAL AUDIT REPORT FOR FISCAL YEAR 2020 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

AGENDA ITEM 5
SDRS ACTUARIAL VALUATION
FOR THE PERIOD ENDING JUNE 30, 2020

Summary of Presentation

Mr. Doug Fiddler, SDRS Senior Actuary, presented the SDRS Actuarial Valuation for the period ending June 30, 2020.

Mr. Fiddler explained the purpose of the actuarial report. He stated the report includes required annual statutory determinations and disclosures. It can also be used to identify trends that can serve as an early warning system for potential future funding problems.

The conclusions of the 2020 Actuarial Valuation, advised Mr. Fiddler, are as follows:

- System investment experience was 1.56 percent, less than the assumed 6.5 percent, resulting in actuarial investment losses of \$607 million for the year;
- Liability gains for the year were \$6 million, with gains from lower than expected COLA and salary increases offsetting losses primarily from terminations and new hires/rehires;
- The July 1, 2021, SDRS COLA will be 1.28 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 slowly increase from 1.41 percent;
- As of June 30, 2020, SDRS has a small net pension asset;
- SDRS remains a fully 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, 2020.

Board Action

No action was necessary.

AGENDA ITEM 6
SDRS ACTUARIAL AUDIT REVIEW

Summary of Discussion

Mr. Larry Langer, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting (CavMac), presented the conclusions of the actuarial audit review of the SDRS valuation they performed. CavMac concluded that the actuarial valuation results were reasonable and accurate, based on the actuarial assumptions and methods used. He also stated that the valuation was performed by a qualified actuary and was performed in accordance with the principles and practices prescribed by the Actuarial Standards Board.

Board Action

IT WAS MOVED BY MR. STROEDER, SECONDED BY MS. GREENEWAY, TO ACCEPT THE ACTUARIAL AUDIT REVIEW FOR FISCAL YEAR 2020 AS PRESENTED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE. THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

AGENDA ITEM 7
ESTABLISH THE COLA FOR FY 2022

Summary of Presentation

Mr. Travis Almond, SDRS Executive Director, stated that SDCL 3-12C-104 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, 1.28 percent is the recommended fiscal year 2022 COLA.

Board Action:

IT WAS MOVED BY MR. WERMEDAL, SECONDED BY MS. GUSTAFSON, TO ESTABLISH THE COLA FOR FISCAL YEAR 2022 AT 1.28 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

AGENDA ITEM 8
SET VARIABLE RETIREMENT ACCOUNT
CONTRIBUTION RATE FOR FY 2022

Summary of Presentation

Mr. Almond stated that pursuant to SDCL 3-12C-1302 the Board must set the variable retirement account contribution rate. He noted that it was the recommendation of staff and the actuary that the variable retirement contribution rate be set at 1.5 percent of each contributing generational member's compensation for the fiscal year beginning July 1, 2021.

Board Action

IT WAS MOVED BY MS. GREENEWAY, SECONDED BY MR. APPL, TO ESTABLISH THE VARIABLE RETIREMENT ACCOUNT CONTRIBUTION RATE FOR FISCAL YEAR 2022 AT 1.5 PERCENT. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

AGENDA ITEM 9
SDRS MEMBER DEMOGRAPHICS AND
WORKFORCE INFORMATION

Summary of Discussion

Mr. Fiddler stated that as the baby boomers mature and retire, there will be a significant impact on the workforce throughout the country, including South Dakota.

The number and percentage of SDRS members now or soon eligible for unreduced retirement is beginning to decline noted Mr. Fiddler. All public employers will face future challenges in replacing retiring and terminating members. Public employees are retiring later as the median age at retirement continues to increase. Health care cost concerns are cited by many employees as a reason. Eligibility for Medicare and increasing Social Security Normal Retirement Age are also factors.

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, 2019, baby boomers comprised 38 percent of SDRS membership and 56 percent of the baby boomers had retired. As of June 30, 2020, baby boomers still comprised 38 percent of the SDRS membership, but 60 percent of them had retired.

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 64 since 2006. Service at retirement has dropped considerably. Considering all classes, median service at retirement has decreased from 23.8 years to 20.8 years since 2006. Much of this reduction is because a significantly lower percentage of Class A or Judicial retirees in recent years have purchased service. A similar effect can be seen for Public Safety retirees, but with fewer retirees, the median service and 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 increasing for all members and appears to be stabilizing over age 62 for longer-service members compared to 58 in 2006-2008. When grouped by service, the median retirement age of each group is increasing. In addition, the percentage of retirees with less than 20 years of service has increased from 38 percent to 48 percent since 2006, while the percentage of retirees with at least 20 years of service has decreased from 62 percent to 52 percent.

In conclusion, noted Mr. Fiddler, staff expect an elevated number of retirements to continue for the next 4 to 5 years as baby boomers retire. Members are retiring at later ages, likely due to health care cost concerns. The median service at retirement is decreasing, primarily indicating fewer members are purchasing service. The bottom line, advised Mr. Fiddler, is that all SDRS employers will need to replace a significant portion of employees in the next five to ten years.

Board Action

No action was necessary.

AGENDA ITEM 10
PUBLIC COMMENT

Summary of Presentation

There was no public comment.

Board Action

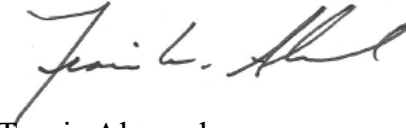
No action was necessary.

ADJOURNMENT

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. JOHNSON, THAT THERE BEING NO FURTHER BUSINESS, THE MEETING BE ADJOURNED. THE MOTION PASSED UNANIMOUSLY ON A ROLL CALL VOTE.

THOSE VOTING AYE: ALBERTS, APPL, BRANT, BRUNKEN, CLARK(LIZA), GREENEWAY, GUSTAFSON, HANSEN, JOHNS, JOHNSON, MERRILL, SALTER, SEELEY, STROEDER, VILHAUER, WERMEDAL.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Travis Almond". The signature is written in a cursive style with a large initial "T" and a long, sweeping underline.

Travis Almond
Executive Director