

BOARD MEETING

SOUTH DAKOTA RETIREMENT SYSTEM

June 2, 2021

The Board of Trustees of the South Dakota Retirement System held its regular Board meeting on June 2, 2021. The meeting began at 9:00 a.m. in the SDRS Board room at the SDRS office, Pierre, SD.

BOARD MEMBERS IN ATTENDANCE:

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

Table of Contents	
Board Member Conflicts Disclosure	2
Minutes	2
Election Results	2
Recognition of Retiring Board Members	3
FY23 Budget Request	4
Appointment of Audit Committee.....	4
Member Services Education Programs Review	4
Follow-up to Long-Term Benefit Goals Review	6
Update of FY2021 Investment Performance	8
SDRS Projected Funded Status	8
Asset Allocation.....	9
Public Comment	10
Executive Director's Performance Evaluation	11
Old/New Business	11

Board member Justice Mark Salter was absent.

OTHERS IN ATTENDANCE:

Deene Dayton
Jill Lenards
Louise Loban
Tammy Otten, SDIC
KJ Peterson
John Richter, SDIC
Paul Schrader, Retirement Consultant
Don Zeller
Brittnie Adamson
Travis Almond

Doug Fiddler
Michelle Humann
Sam Koldenhoven
Michelle Mikkelsen
Dawn Smith
Jacque Storm

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

AGENDA ITEM 1
BOARD MEMBER CONFLICTS DISCLOSURE

Summary of Presentation

No board member had any conflict to disclose.

Board Action

No action was necessary.

AGENDA ITEM 2
APPROVAL OF APRIL 1, 2021, MEETING MINUTES

Board Action

IT WAS MOVED BY MR. HANSEN, SECONDED BY MR. VILHAUER, TO APPROVE THE MINUTES OF THE APRIL 1, 2021, BOARD OF TRUSTEES MEETING. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 3
ELECTION RESULTS

Summary of Presentation

Ms. Dawn Smith, SDRS Executive Assistant, stated that there were three positions up for election this year. Jill Lenards (State Employees) and Mark Barnett (Retirees) won their elections and will begin their four-year term July 1, 2021. She noted that James Appl (Teachers) ran unopposed and will also begin his four-year term July 1, 2021.

Board Action

IT WAS MOVED BY MR. ALBERTS, SECONDED BY MS. GUSTAFSON, TO ACCEPT THE ELECTION REPORT AND DECLARE JILL LENARDS (STATE EMPLOYEES), MARK BARNETT (RETIREEES) AND JAMES APPL (TEACHERS), AS THE WINNERS OF THE 2021 SDRS BOARD OF TRUSTEES ELECTION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 4
RECOGNITION OF RETIRING BOARD MEMBERS

Board Action

IT WAS MOVED BY MR. JOHNS, SECONDED BY MR. MERRILL, FOR A VOTE OF APPRECIATION TO DR. JAMES HANSEN FOR HIS SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Dr. James Hansen has served on the Board of Trustees of the South Dakota Retirement System for twenty-eight years;

WHEREAS, Dr. James Hansen has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Dr. James Hansen for his positive efforts toward meeting the objectives of the plan and to wish him success in all future endeavors.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MS. BRUNKEN, SECONDED BY MS. BRANT, FOR A VOTE OF APPRECIATION TO LAURIE GUSTAFSON FOR HER SERVICE ON THE BOARD OF TRUSTEES BY ADOPTING THE FOLLOWING RESOLUTION:

WHEREAS, Laurie Gustafson has served the Board of Trustees of the South Dakota Retirement System for sixteen years;

WHEREAS, Laurie Gustafson has worked and been very concerned for a financially sound and progressive retirement system;

NOW THEREFORE, BE IT RESOLVED, that the Board of Trustees of the South Dakota Retirement System wishes to thank Laurie Gustafson for her positive efforts toward meeting the objectives of the plan and to wish her success in all future endeavors.

THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 5
FY 2023 BUDGET REQUEST

Summary of Presentation

Ms. Michelle Mikkelsen, SDRS Chief Financial Officer, stated that SDRS is requesting no changes be made from the FY 2022 budget, so the request for FY 2023 remains the same.

Ms. Mikkelsen noted that the budget sub-accounts for FY 2022 were reallocated to reflect actual expenditure experience that SDRS has seen over the past several years, thereby making future budget requests easier to analyze.

Board Action:

IT WAS MOVED BY DR. HANSEN, SECONDED BY MR. ALBERTS, TO APPROVE THE FY2023 BUDGET REQUEST AS DISCUSSED. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 6
APPOINTMENT OF AUDIT COMMITTEE

Summary of Presentation

Chair Johns stated that he has appointed an audit committee to consist of Karl Alberts, Kathy Greenway, and Glen Vilhauer.

Board Action

No action was necessary.

AGENDA ITEM 7
MEMBER SERVICES EDUCATION PROGRAMS REVIEW

Summary of Presentation

Ms. Michelle Humann, SDRS Member Services Manager, stated the goal of the Member Services department is to provide the SDRS membership with the tools to make informed decisions on their retirements through personal consultations, employer requested visits, and educational workshops.

Ms. Humann noted that the Member Services department has 8 planners with a total combined 94 years of SDRS service, including one full-time disability planner, one departmental audit planner, and one full-time traveling planner. In addition, there are four staff members in the records department with a total of 47 combined years of SDRS service.

In a typical year, advised Ms. Humann, Member Services staff handle approximately 20,000 phone calls, 2,000 individual consultations at 36 events around the state, and 800

in-office consultations that are initiated by the member. These are all done by phone, in-person, or via Microsoft TEAMS consultations. There are also employer requested visits, advised Ms. Humann. In a typical year SDRS staff see approximately 1,600 members at large group meetings, hold 300 individual consultations at employer events/meetings, and have 900 contacts at booths.

Ms. Humann stated that a checklist is provided to members prior to their personal consultations. Each consultation is scheduled for 30 minutes and provides information for now and in the future, is personalized to the age of the member, and provides estimates based on the member's request.

Ms. Humann stated that SDRS provides five different types of workshops for targeted members. The first workshop is the Women and Financial Planning workshop. This workshop is targeted to women during their career. The focus is on the unique financial and retirement planning challenges facing women and strengthening the overall financial wellness of SDRS' largest membership group. In 2019 there were 130 women who attended this in-person workshop. Moving this workshop on-line in 2020 increased the attendance to 216; therefore, this workshop will continue to be held virtually.

The next workshop is the Early and Mid-Career Workshop. This workshop targets recent hires and mid-career members. The workshop focuses on personal financial awareness and retirement preparedness through budgeting and financial planning exercises. Ms. Humann noted that attendance for this workshop also increased by about 50 members when it went virtual; therefore, this workshop would also continue to be held virtually.

The third workshop is the Coffee Talk. This workshop targets the retired members of SDRS. This forum focuses on the legislative changes as they relate to SDRS, the cost-of-living adjustments, and other topics of interest and importance to our retirees. Unlike the first two workshops, attendance dropped by more than 50 percent when these forums went virtual from 148 in 2019 down to 68 in 2020. As a result, these forums will return to an in-person workshop starting next year.

Employer and authorized agent training is the fourth type of workshop that SDRS staff hold, advised Ms. Humann. This workshop targets the primary employer contact for SDRS. The training is focused on the SDRS forms, electronic reporting and direct deposit of contributions, Foundation and Generational benefit design and general SDRS information, as well as the SDRS Supplemental Retirement Plan and Special Pay Plan. In 2020, 131 authorized agents attended the meeting. The number is higher for 2021, but that could be due to the significant legislative changes SDRS had.

The final workshop that SDRS offers, stated Ms. Humann, is the Successful Transitions to New Beginnings workshop. This workshop targets members who are nearing retirement. It focuses on income planning skills, overview of SDRS, SDRS Supplemental Retirement Plan, Social Security, and retirement income and budgeting.

This workshop had approximately the same number of members participating in 2019 and 2020.

Mr. Alan Freng, SDRS Retirement Planner, gave the Board a brief overview of the Successful Transitions to New Beginnings workshop.

Board Action

No action was necessary.

AGENDA ITEM 8
FOLLOW-UP TO LONG-TERM BENEFIT GOALS REVIEW

Summary of Presentation

Mr. Paul Schrader, SDRS Retirement Consultant, stated that the long-term benefit goals were reviewed and assessed in April and found that most of the goals are met or exceeded; however, the SDRS income replacement goal is not being met for all members.

Mr. Schrader noted that the objectives for this meeting were to determine the retirement income needed to maintain pre-retirement spendable income and assess the benefit adequacy using the spendable income analysis. Staff would then conduct a retiree survey and present the results of that survey as well as any recommended changes to the goals for Board approval at the September meeting.

Mr. Schrader stated that 70-85 percent of final average compensation (FAC) is the general benchmark for how much retirement income is needed. However, each member has a unique target considering the cessation of contributions to SDRS, Social Security, savings, and work-related expenses. Other important considerations are spendable income and spending patterns before and after retirement, health, lifestyle in retirement, debt, financial obligations to children, parents, and grandchildren, as well as home ownership.

In preparing a spendable income analysis, the spendable income before retirement and the gross retirement income needed after retirement to match the spendable income before retirement are determined. Meeting the required gross retirement income will help maintain the member's standard of living assuming the spendable income reflects actual expenses before retirement, there are no significant increases in total expenses after and during retirement, and inflation protection is provided after retirement. Spendable income is determined by considering contributions to SDRS, Social Security, and retirement savings before retirement and federal income taxes before and after retirement. Mr. Schrader noted that the spendable income approach avoids the common planning mistake of comparing gross income after retirement to net income before retirement.

Going through an example of a member with a FAC of \$65,000, Mr. Schrader advised the Board that without personal savings, the member would need a spendable income of \$49,698 after retirement to equal their spendable income before retirement. If the

member saves a modest \$1,300 per year, the spendable income needed would be reduced to \$48,684.

If that member retires with 30 years of service at age 65 and did not have personal savings, Mr. Schrader stated that the SDRS benefit and Social Security benefit would give the member a retirement income of \$50,687. When federal income taxes are withheld, that would leave the member with a spendable income after retirement of \$46,852, approximately 6 percent less than pre-retirement spendable income. If the member had saved the additional amount throughout his career, his spendable income would be \$50,566, almost 4 percent more than pre-retirement spendable income.

Mr. Schrader noted that a member's spendable income after retirement will vary with FAC. The average paid 2021 SDRS retiree with 30 years of service retiring at age 65 with additional savings of 100 percent of pay at retirement will more than replace spendable income before retirement. However, the lowest paid members will replace spendable income by an even greater margin, while the highest paid members fall slightly short of replacing spending income. Most SDRS members will need additional savings to replace their spendable income before retirement. A total retirement income of 80-85 percent of FAC would result in the same spendable income after retirement.

SDRS benefits represent only one source of retirement income, stated Mr. Schrader. Adequacy based on spendable income replacement approach is total retirement income of 80-85 percent of FAC. An adequacy assessment should include benefits available from SDRS, Social Security, and personal savings.

Most SDRS career retirees will currently match or exceed spendable income before retirement based on retirement at normal retirement age and meeting the savings goal. The SDRS COLA is key to members maintaining their standard of living.

Income replaced by SDRS benefits for future Foundation retirees will decline slightly and gradually due to unimproved benefits since 2008. Public Safety members who retire at normal retirement age of 55/57 and other members who retire early will not have Social Security benefits available until age 62. Similarly, SDRS adequacy goals are based on members retiring at ages 65/67. Earlier retirement, particularly before Social Security eligibility at age 62, is not a reality for most members without substantial savings or work after retirement.

Mr. Schrader stated that the spendable income analysis provides an objective starting point. However, one size does not fit all, and therefore SDRS should continue to encourage each member to establish individual goals based on their unique circumstances. Logically, expenses will change after retirement but will vary for each member.

Mr. Schrader noted that staff will be surveying retirees. The Board would then consider any changes to goals based on the spendable income analysis and retiree feedback in September.

Board Action

No action was necessary.

AGENDA ITEM 9
UPDATE OF FY2021 INVESTMENT PERFORMANCE

Summary of Presentation

Mr. Matt Clark, South Dakota State Investment Officer, informed the Board that as of May 31, the SDRS trust fund had a fiscal year-to-date return rate of approximately 20 percent.

Board Action

No action was necessary.

AGENDA ITEM 10
REVIEW OF SDRS PROJECTED FUNDED STATUS

Summary of Presentation:

Mr. Doug Fiddler, SDRS Senior Actuary, noted that the SDRS COLA will vary with both inflation and long-term affordability. As a result, under most circumstances, SDRS's fair value funded ratio (FVFR) is expected to remain at 100 percent.

Mr. Fiddler noted that since 2010, the average SDRS COLA of 2.3 percent was almost 1 percent higher than the average inflation for the same period.

Mr. Fiddler stated that based on a FY21 net investment return of 18 percent the baseline FVFR is expected to be 102 percent at June 30, 2021. As a result, the preliminary estimated 2022 COLA would be equal to inflation within the full COLA range (0-3.5 percent).

Mr. Fiddler noted that the most significant immediate risk to SDRS is investment risk. The investment returns will first impact the variable SDRS COLA. Less than assumed returns will reduce the restricted maximum COLA while greater than assumed returns will increase the maximum or enable the full COLA range. However, the variable COLA will not be sufficient to maintain 100 percent FVFR in all conditions and additional corrective actions may be required.

Mr. Fiddler stated at June 30, 2020, the estimated one-year likelihood of required corrective action recommendations using the current asset allocation statistics was 24 percent. Legislation enacted in 2021 reduced the minimum COLA to 0%, which when

considered at June 30, 2020, reduced the estimated one-year likelihood of required corrective action recommendations to 14 percent.

Mr. Fiddler advised that if FY 2021 net investment returns are 16 percent, the estimated likelihood of required corrective action recommendations at the end of FY 2022 would reduce to 5 percent.

In summary, advised Mr. Fiddler, the recent investment experience less than the 6.5 percent assumption reduced the maximum COLA and increased the likelihood of required corrective action recommendations. However, reducing the minimum COLA to 0 percent allows SDRS to weather more severe downturns without required corrective action recommendations and is a significant change. If FY 2021 net investment returns are below approximately negative 7 percent, a corrective action recommendation would be required. If the return exceeds approximately 15 percent, the full COLA range may be affordable.

Board Action

No action was necessary.

AGENDA ITEM 11 **ASSET ALLOCATION**

Summary of Presentation

Mr. Matt Clark, State Investment Officer, SDIO, discussed the asset allocation process, importance, and application to SDRS. He discussed the recommended benchmark allocation and ranges, expected return and standard deviations, asset category valuation, and the movement of category allocations within ranges based on valuation.

Mr. Clark discussed the recommended benchmark level of equity-like and bond-like risk to balance long-term potential returns with drawdown risk in difficult markets. He indicated this was for the benchmark which should represent what could be adhered to through thick and thin. He showed charts of historic returns noting the dominance of equity returns over the very long term and the diversification benefit during market downturns of mixing in some bonds. He discussed the recommended range for equity-like risk and bond-like risk. He said the goal is to enter market downturns with below benchmark risk and increase toward maximum during the downturn to benefit from an eventual rebound. He added that after getting to minimums and maximums, markets will typically move further, which can be very painful. It is essential to be patient for at least another three to five years.

Mr. Clark discussed equity-like and bond-like risk mapping for all asset categories. He discussed specific asset categories to be included in the benchmark which are those that are significant and passively implementable. He discussed other niche or skill-based categories which are not in the benchmark but that have a permitted range. He presented the SDRS capital market benchmark allocations and minimum/maximum ranges for each

asset category. The capital markets benchmark allocations for fiscal years 2013 through 2021 were shown. The staff's recommended benchmark for FY 2022 was also shown.

Mr. Clark showed SDRS historical levels of equity-like allocation. He reviewed the asset allocation risk/return analysis. The first portion focused on long-term mean expected returns, expected standard deviations, and asset correlations provided by JP Morgan Asset Management as a proxy for conventional expectations. The incremental return and standard deviation impact of each asset class was shown. The analysis was shown again using internal asset category expected returns and internal adjusted risk measures.

Mr. Clark discussed additional risk measures and risk control. He reiterated that the focus is on equity-like risk and bond-like risk which includes embedded equity and bond risk for all categories. He said statistical measures of risk such as standard deviation and correlation are adjusted to reflect higher real-world frequency and magnitude of adverse outlier events. He said that behavior of some assets in a crisis can vary depending on whether the crisis is rooted in inflation or deflation concerns. Clark discussed how risk is managed by broad diversification and by reducing amounts invested in expensive assets. He said adequate liquidity is maintained to avoid liquidations of depressed assets in a crisis and to allow rebalancing. He stated that participation in the economic system is necessary to get the highest long-term rewards and that short-term ebbs and flows must be endured. He added that strength and determination is important to be able to handle tough markets, which is helped by strong funding built up in good markets and a flexible benefit design.

Mr. Clark then discussed asset category valuation. Equity category valuation is based on estimated future cash flows based on normal earnings and growth rates and a risk impacted discount rate. The model is similar to the model used to value individual companies. He discussed adjustments to fair value based on monetary conditions and corporate earnings strength. He discussed valuation processes for bonds, real estate, and high yield.

Board Action

No action was necessary.

AGENDA ITEM 12
PUBLIC COMMENT

Summary of Presentation

No one had any public comment.

Board Action

No action was necessary.

AGENDA ITEM 13
EXECUTIVE DIRECTOR'S PERFORMANCE EVALUATION

Board Action

IT WAS MOVED BY MR. APPL, SECONDED BY MS. GREENEWAY, TO GO INTO EXECUTIVE SESSION PURSUANT TO SDCL 1-25-2(1) TO DISCUSS PERSONNEL MATTERS. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. JOHNSON, SECONDED BY MS. BRANT, TO COME OUT OF EXECUTIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

IT WAS MOVED BY MR. STROEDER, SECONDED BY MR. VILHAUER, TO ADJUST THE SALARY OF THE EXECUTIVE DIRECTOR IN ACCORDANCE WITH THE STATE EMPLOYEE SALARY POLICY AS ENACTED BY THE LEGISLATURE DURING THE 2021 LEGISLATIVE SESSION. THE MOTION PASSED UNANIMOUSLY ON A VOICE VOTE.

AGENDA ITEM 8
OLD/NEW BUSINESS

Summary of Presentation

Conference Attendance

Mr. Almond informed the Board that most of the conferences were still being held virtually this year.

Upcoming Board Meeting Dates

Ms. Smith discussed the upcoming SDRS Board meeting dates.

Board Action

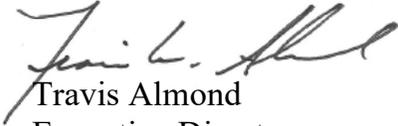
No action was necessary.

ADJOURNMENT

Board Action

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

Respectfully Submitted,


Travis Almond
Executive Director