



South Dakota Retirement System

Projected Funded Status as of June 30, 2019 and Other SDRS Updates

**Legislative Research Council Executive Board
June 10, 2019**



Projected Funded Status as of June 30, 2019 and 2020 Maximum COLA*

If Net Investment Return for FYE June 30, 2019 is:	Step 1: Determine Baseline FVFR <small>(Using Baseline COLA assumption of 2.25%)</small>	Step 2: Determine Restricted Maximum COLA <small>(Resulting in FVFR of 100%)</small>	Step 3: Determine FVFR <small>(Using Baseline COLA or Restricted Maximum COLA, if applicable)</small>	
(8.3%)	Minimum Return to Avoid Corrective Actions	84%	0.50%	100%
6.5%	Assumed Return	98%	2.04%	100%
(5.0%)	Return Examples	87%	0.88%	100%
(2.5%)		89%	1.15%	100%
0.0%		92%	1.41%	100%
2.5%		94%	1.66%	100%
5.0%		96%	1.90%	100%
7.5%	99%	2.13%	100%	
8.8%	Minimum Return for 100% FVFR with Baseline COLA	100%	Unrestricted: 3.5%	100%

* Before consideration of liability gains/losses for year ending June 30, 2019. June 30, 2018 Baseline FVFR was 97.7% and Restricted Maximum COLA was 2.03%.

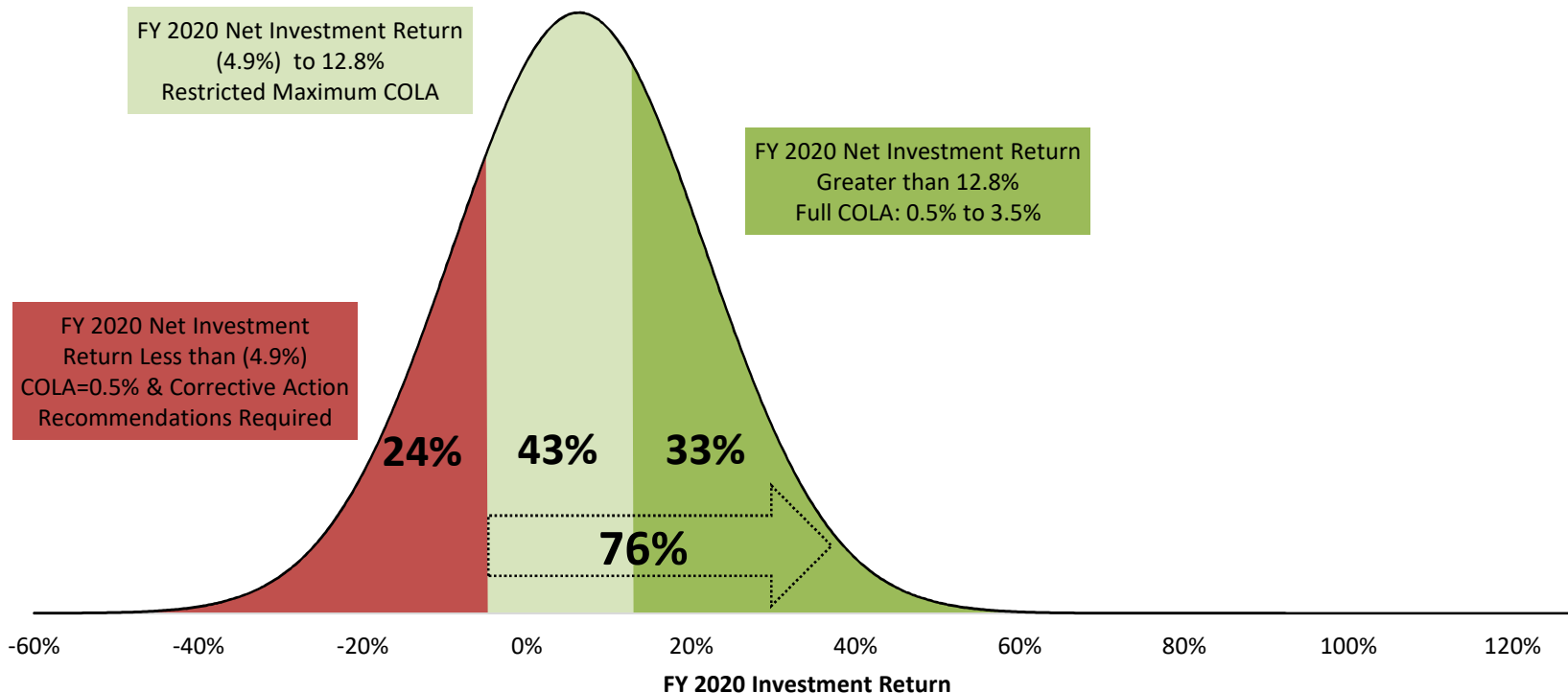


Projected Funded Status and Risk Analysis

- Absent significant investment changes, the FVFR will be 100% at June 30, 2019
 - Net FY19 returns more than **9%** could result in an unrestricted 2020 COLA (COLA equal to inflation between 0.5% and 3.5%)
 - Net FY19 returns less than **-8%** could require corrective action recommendations
- Results to date would indicate a FY20 SDRS COLA equal to inflation – but inflation and investment returns can change quickly and dramatically
- If FY19 net investment returns finish at approximately 2.5%, the likelihood of additional required corrective action recommendations in the near future varies from approximately 24% (1 year) to approximately 33% (3 years)
- Scenario testing indicates consistent 5% per year investment returns:
 - Can be sustained for 12 years with gradual reduction in maximum COLA
 - Would require corrective actions after 12 years
 - Unfavorable experience in other areas (payroll growth, mortality, etc.) can accelerate this time frame



Projected Future COLA Ranges: 2021 Assuming 2.5% Net Investment Return for FY19



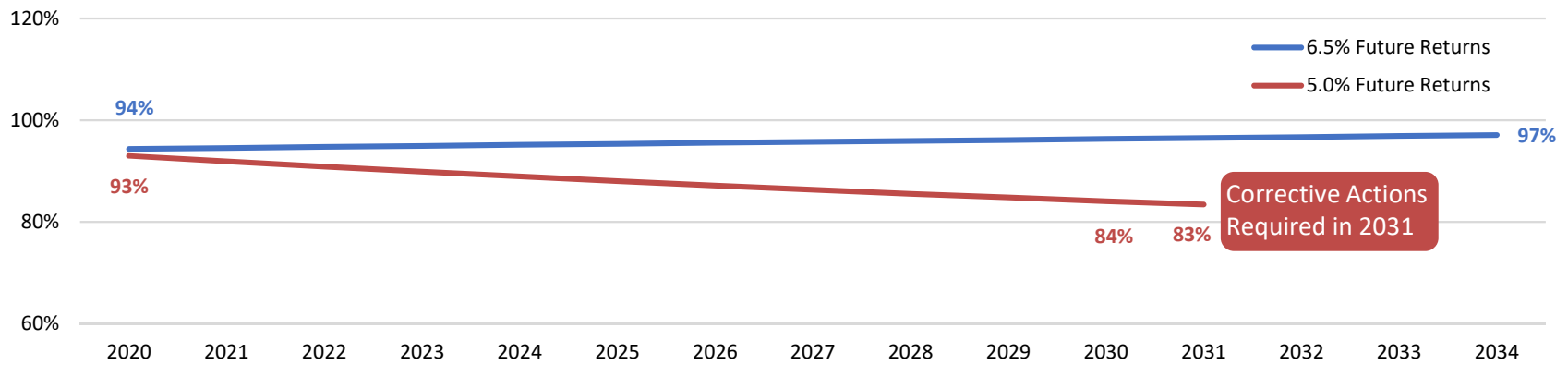
- Following an assumed net investment return of 2.5% for FY19, the likelihoods for 2021 COLA ranges, which are primarily driven by FY20 investment returns, are:
 - 33% likelihood that the baseline COLA will be payable (CPI-W between 0.5% and 3.5%)
 - 43% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
 - 24% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2018 investment portfolio statistics. Assumes 2.25% annual inflation.

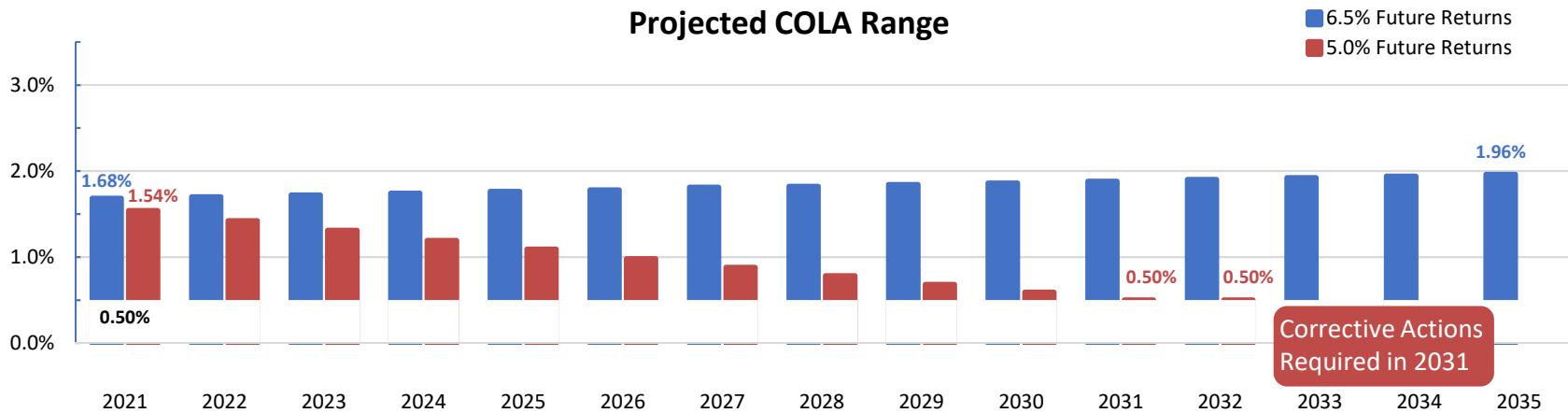


Additional Risk Assessments: 5% Investment Returns

Projected Baseline Fair Value Funded Ratio



Projected COLA Range





SDRS is Different

SDRS

- Fixed member and employer contributions
- Variable benefits
- Statutory thresholds delineating acceptable funding measurements
 - Corrective actions required if thresholds not met
- 6.5% investment return assumption
- **SDIC invests assets**

Typical State Retirement System

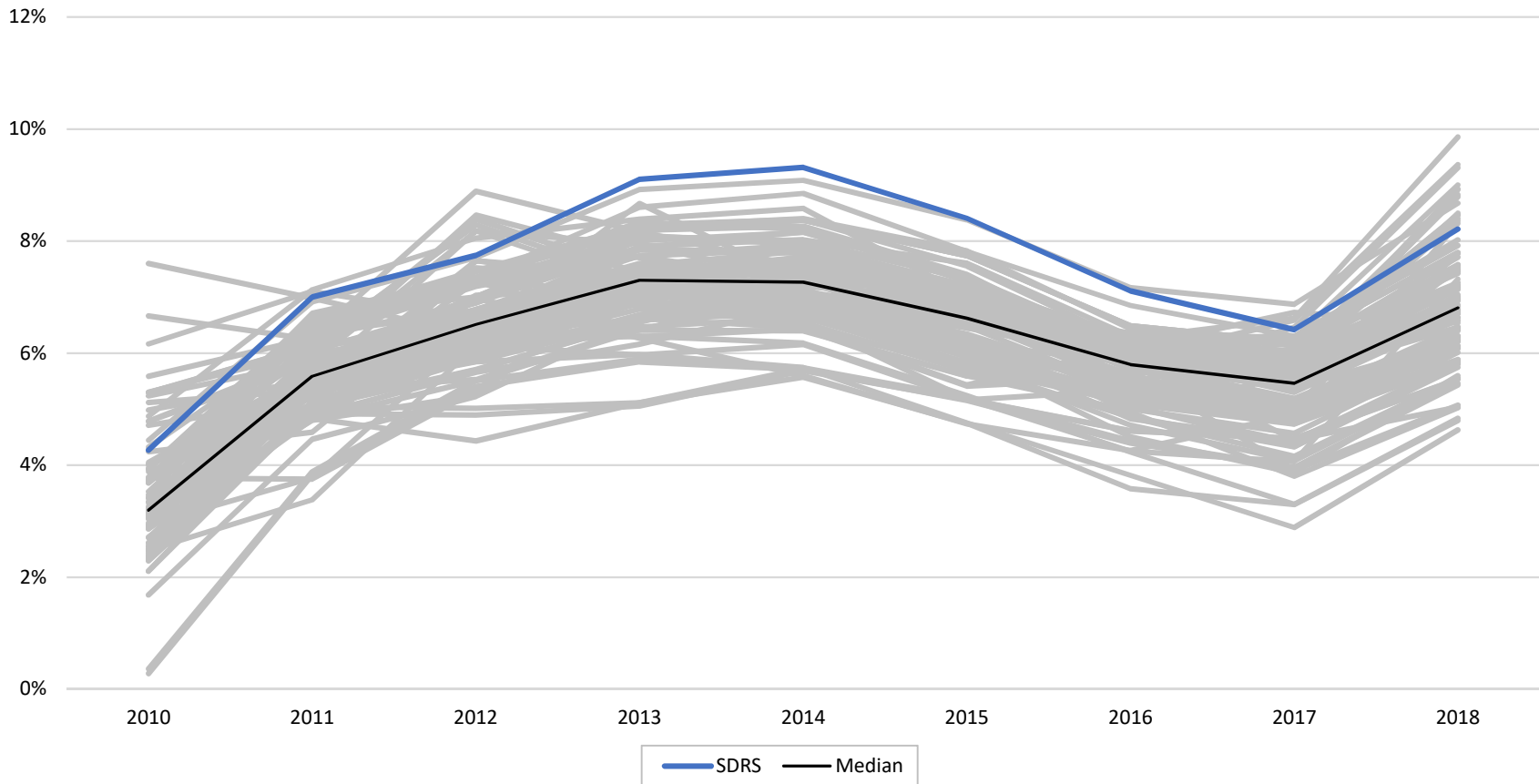
- Fixed member, variable employer contributions
- Fixed benefits
- No pre-determined limits on measurements
 - No definitive call to action
- 7.25% investment return assumption
- Responsibility for asset management may be combined with administration, or separate

These structural and operational differences have been key to SDRS success



SDIC Results: Statewide Pension Plan 10-Year Returns

Rolling 10-Year Geometric Average Returns

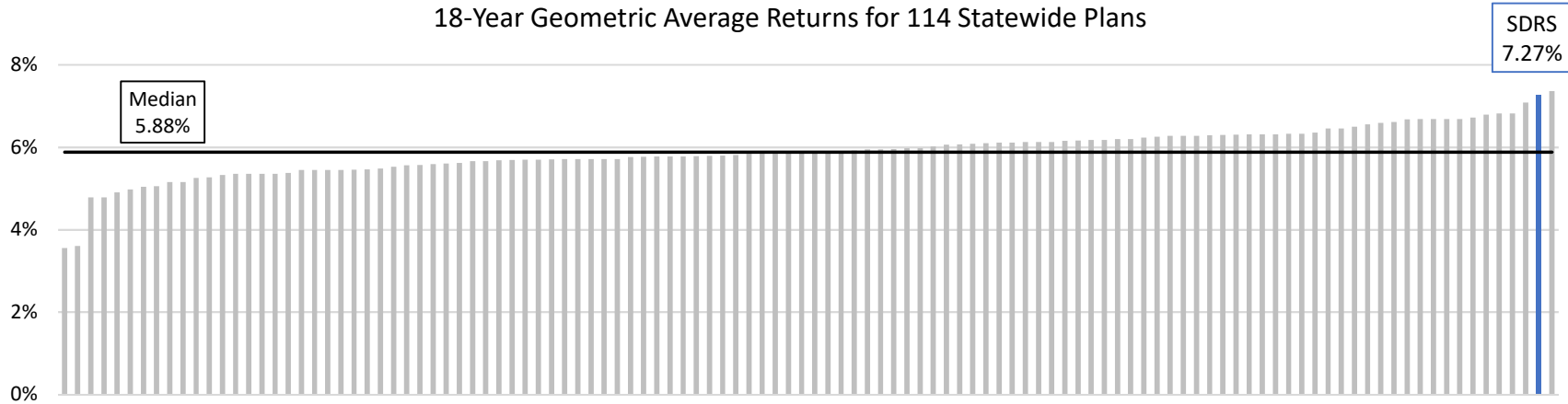


Investment return data on 114 statewide plans from Public Plans Database. Calendar year 2018 returns assumed to be -3% if not yet reported.

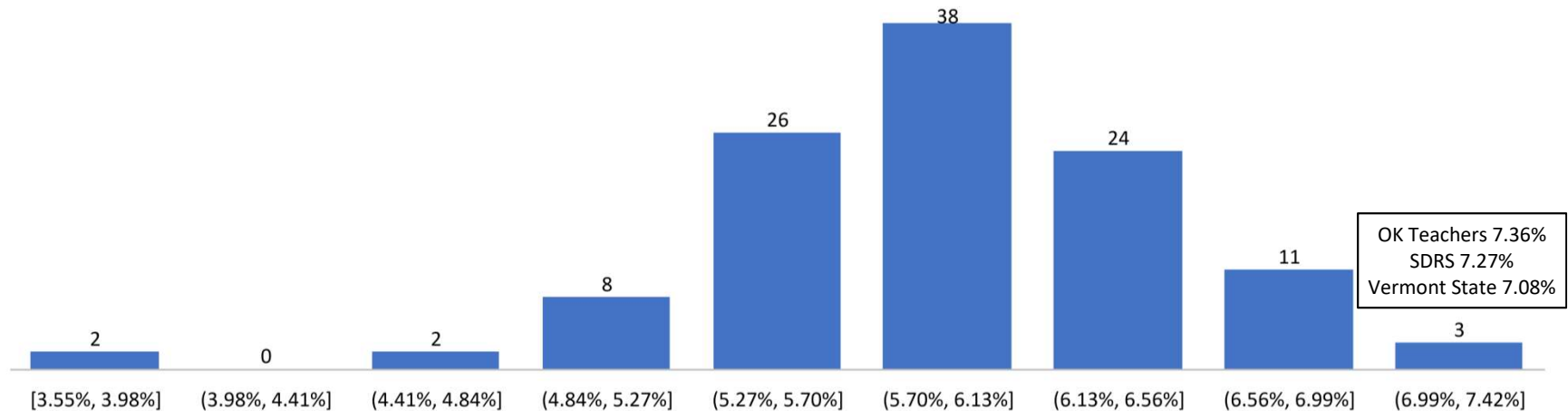


SDIC Results: Statewide Pension Plan 18-Year Returns

18-Year Geometric Average Returns for 114 Statewide Plans



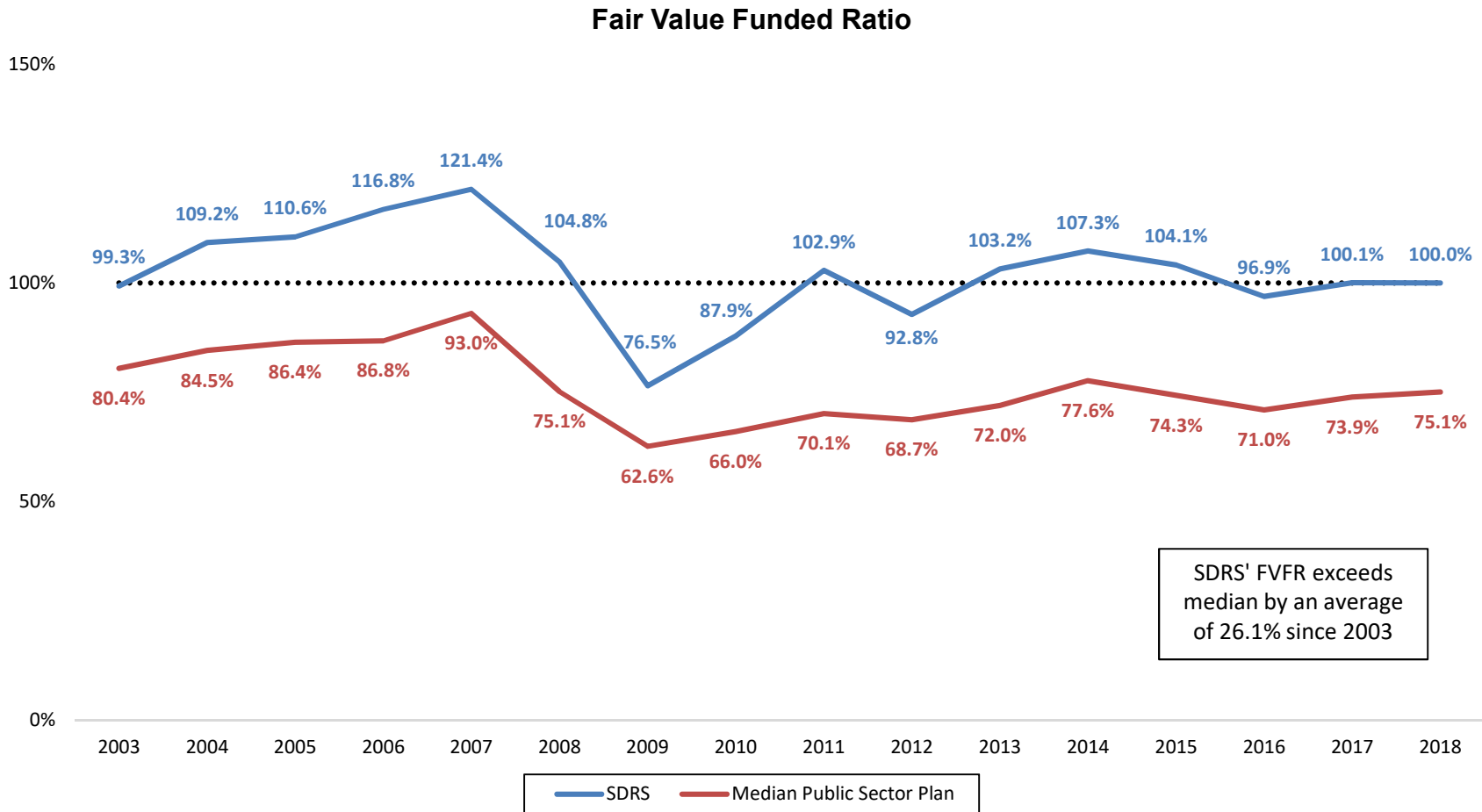
Return Distribution



Investment return data on 114 statewide plans from Public Plans Database. Calendar year 2018 returns assumed to be -3% if not yet reported.



SDRS Results: Funded Status Comparisons

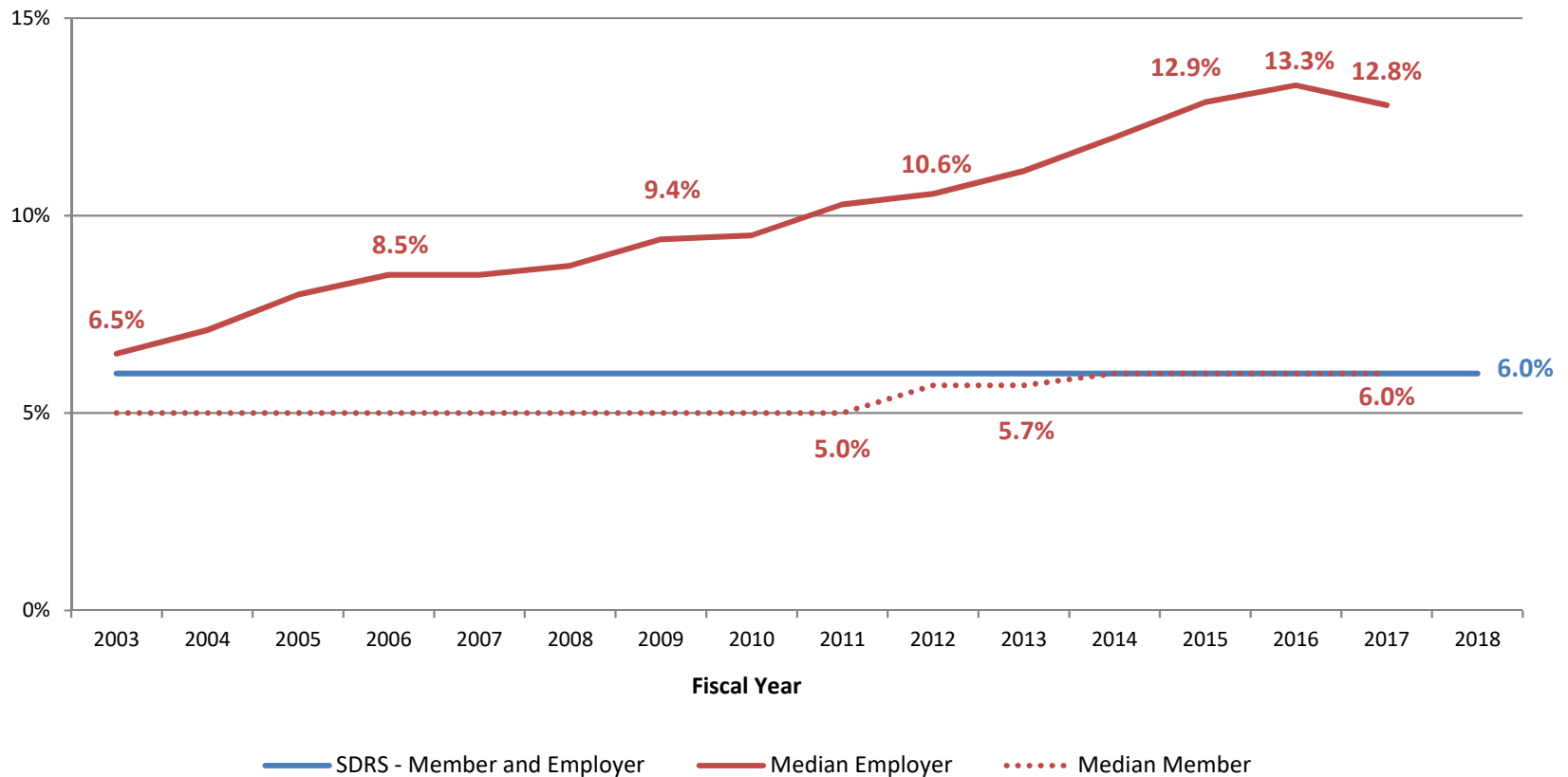


Data from Public Plans Database. Many calendar year 2018 results are not yet reported and when reported will likely reduce the 2018 median plan funded ratio.



SDRS Results: Contribution Comparisons

**Contribution Rates for General Employees
SDRS and Median, Large Public Sector Plans (In Social Security)**

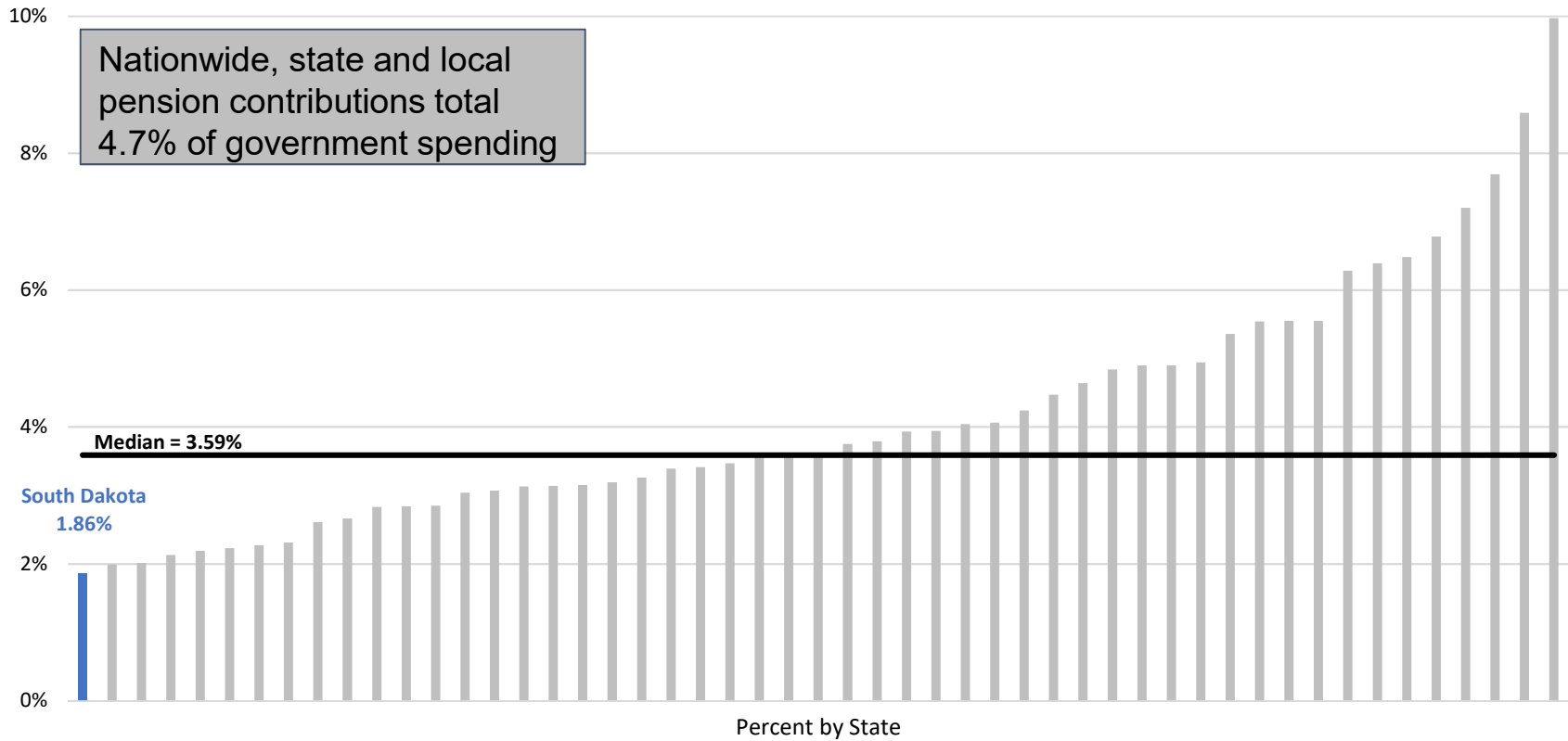


Data from NASRA Public Fund Survey.



SDRS Results: Government Spending on Pensions

Government Contributions to Pensions as a Percent of All Direct Government Spending,
FY 2016



Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems.



Summary of SDRS Success

- Investment performance has been the primary driver
- Fixed contributions, variable benefits, benefit improvement discipline, and statutory requirements for corrective actions have been important factors
- Investment assumptions aligned with SDIC outlook
- Risks evaluated and communicated
- Planning, goal setting, and monitoring results



Workforce Issues

- The number of retirements is peaking as the baby boom generation ages:
 - FY 2019 is a record year for retirements
 - May, June, and July 2019 have seen dip from expected spike, presumably due to high cost of pre-Medicare health insurance
- If very recent trends continue, expected surge in employee exits may not reach the anticipated levels, but may last longer than previously thought
- SDRS remains 100% funded recognizing the current and expected continuing high number of retirements



Executive Director Succession Update

- Selection Committee consists of seven SDRS Trustees, two RLC members and former Lt. Gov. Matt Michels
- Application period closed: 12 applications received
- Semi-finalists will be selected in June
- Finalists will be selected in August after personal interviews
- SDRS Board of Trustees will name Executive Director in September
- Executive Director will start in late fall