South Dakota Retirement System

SDRS Basics and Comparisons Including Estimated Funded Status as of June 30, 2019

Legislative Research Council Executive Board
August 26, 2019

SDRS Operates Differently than Most Statewide Plans

SDRS

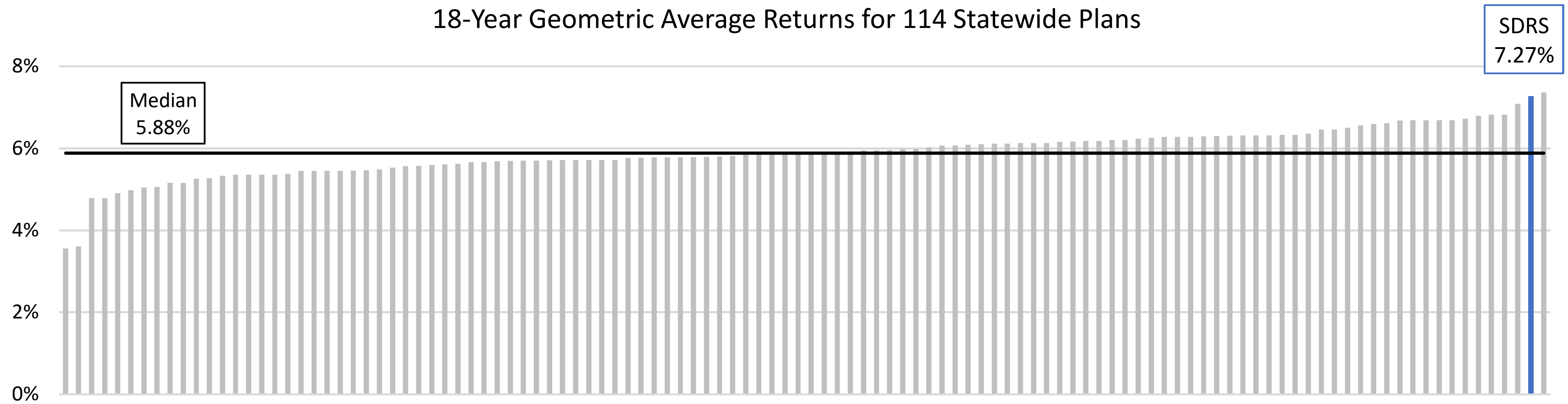
- Fixed member and employer contributions
- Variable benefits
- Statutory thresholds delineating acceptable funding measurements
  - Corrective actions required if thresholds not met
- 6.5% investment return assumption
- **SDIC invests assets**

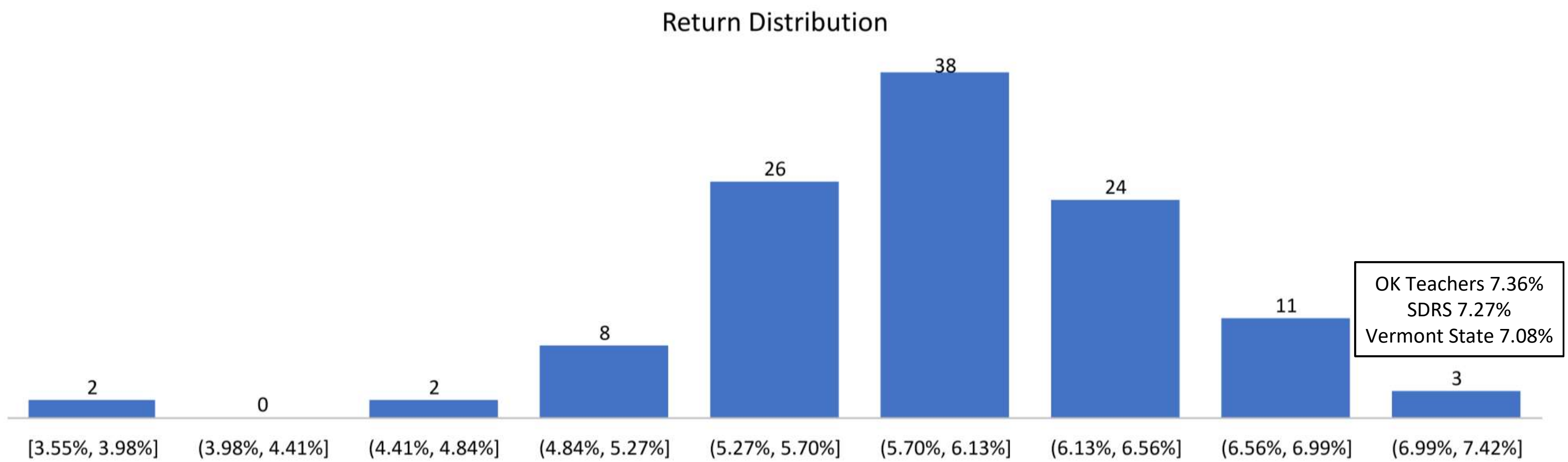
Typical State Retirement System

- 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 18-Year Returns

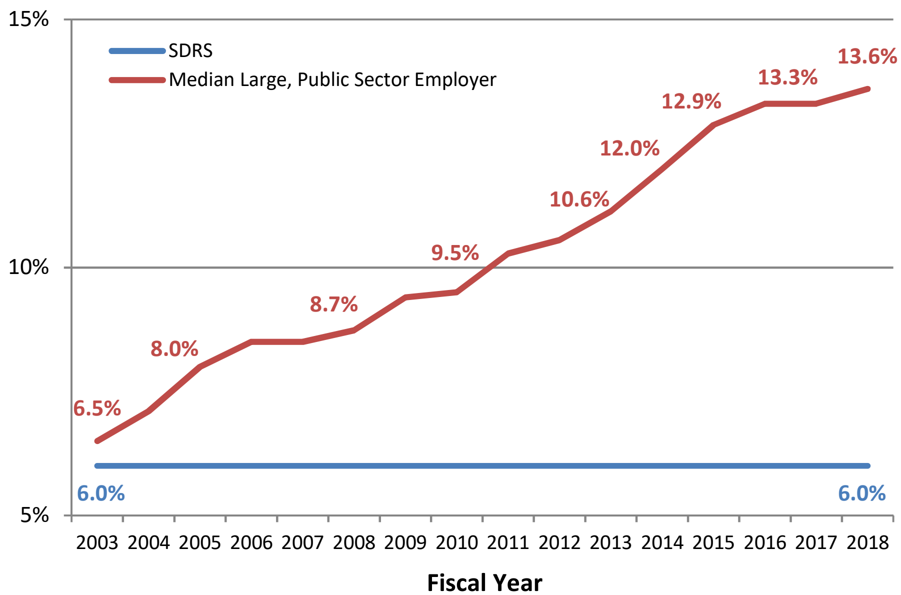




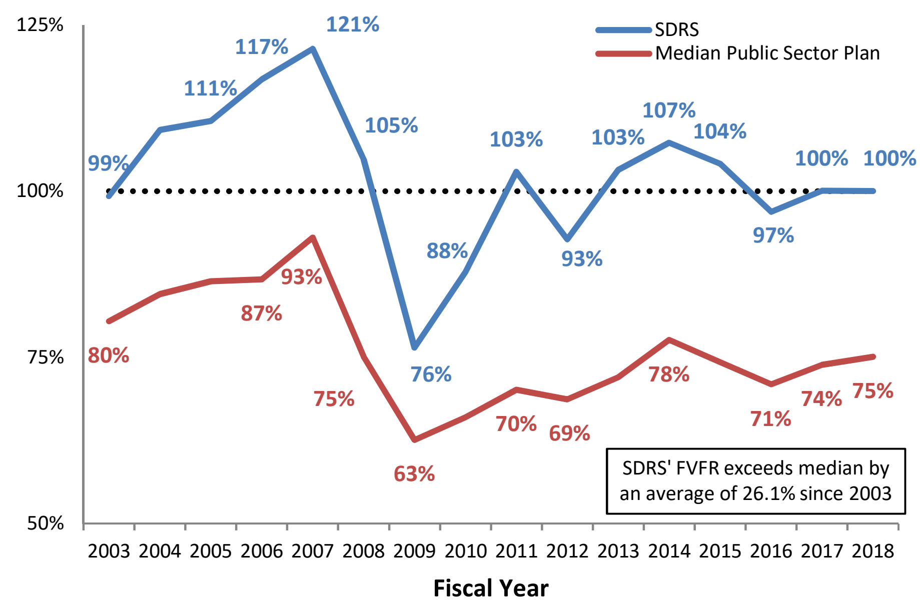
Investment return data on 114 statewide plans from Public Plans Database. Calendar year 2018 returns assumed to be -3% if not yet reported.

SDRS Results: Employer Contributions and Funded Status

Contribution Rates for General Employees



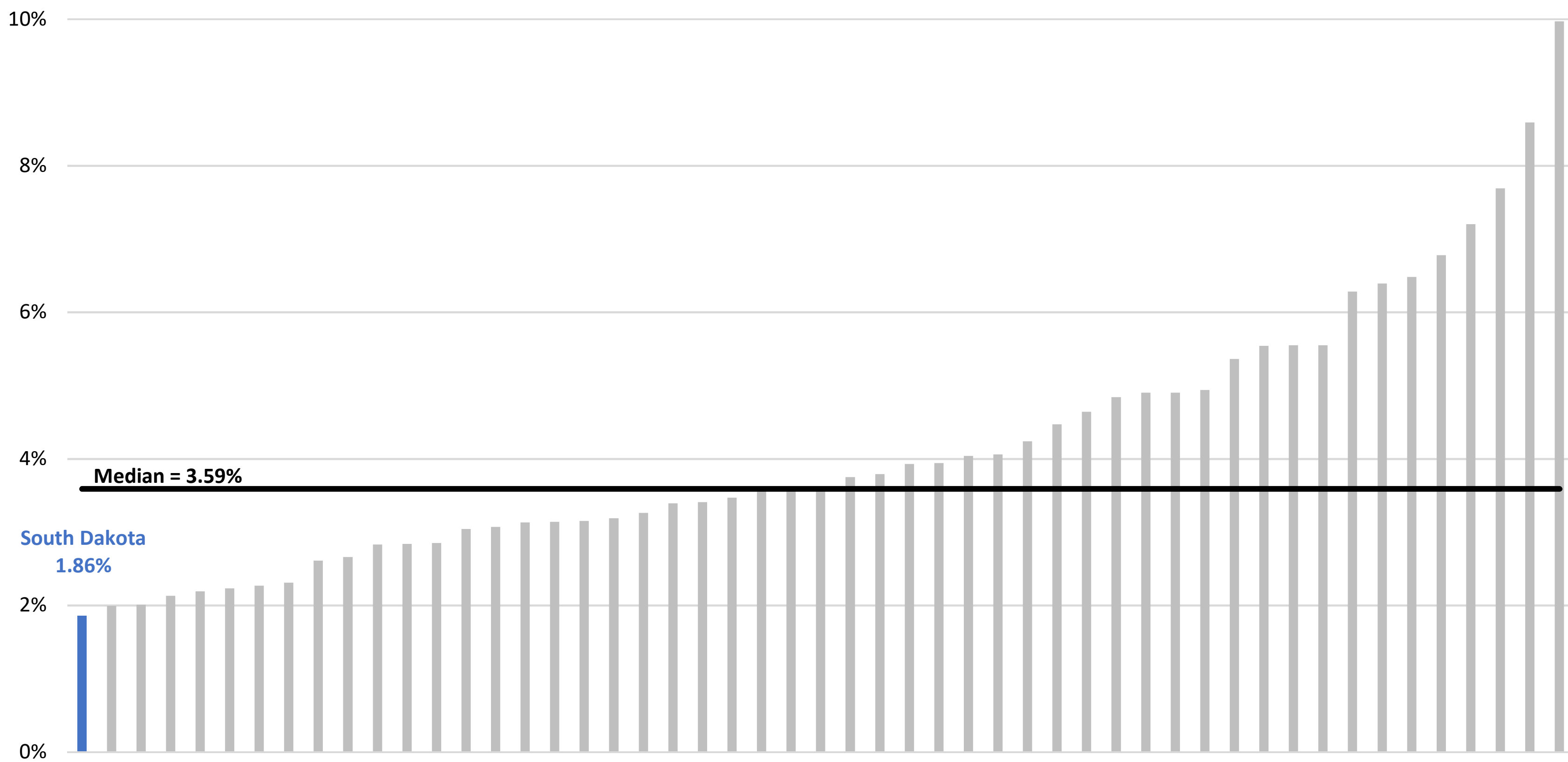
Fair Value Funded Ratio



- Since consolidation in 1974, SDRS has been managed within the resources provided by fixed, statutory member and employer contributions
- In recent years, the median employer contribution rate has more than doubled for the large public retirement systems who participate in Social Security, while the SDRS rate has not increased
- During the same period, SDRS has maintained a funded ratio at or near 100%, significantly better than the median system

SDRS Results: Government Spending on Pensions

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



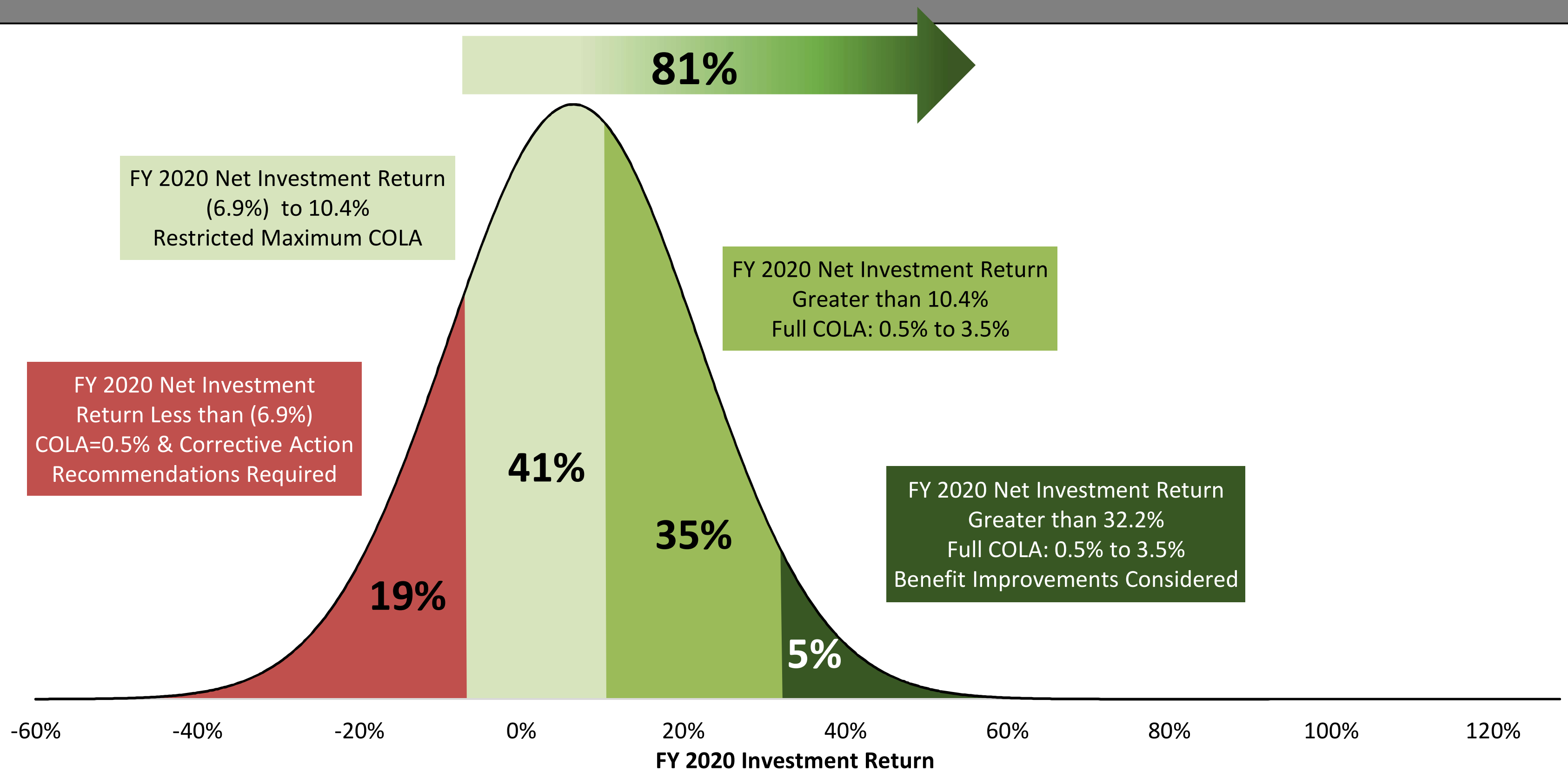
Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems.

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

If Net Investment Return for FYE June 30, 2019 is:		Step 1: Determine Baseline FVFR (Using Baseline COLA assumption of 2.25%)	Step 2: Determine Restricted Maximum COLA (Resulting in FVFR of 100%)	Step 3: Determine FVFR (Using Baseline COLA or Restricted Maximum COLA, if applicable)
(8.3%)	Minimum Return to Avoid Corrective Actions	84%	0.50%	100%
4.75%	Current Estimate	96%	1.87%	100%
6.5%	Assumed Return	98%	2.04%	100%
8.8%	Minimum Return for 100% FVFR with Baseline COLA	100%	Unrestricted: 3.5%	100%
30.2%	Minimum Return for Benefit Improvement Consideration	120%	Unrestricted: 3.5%	120%

* 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%.

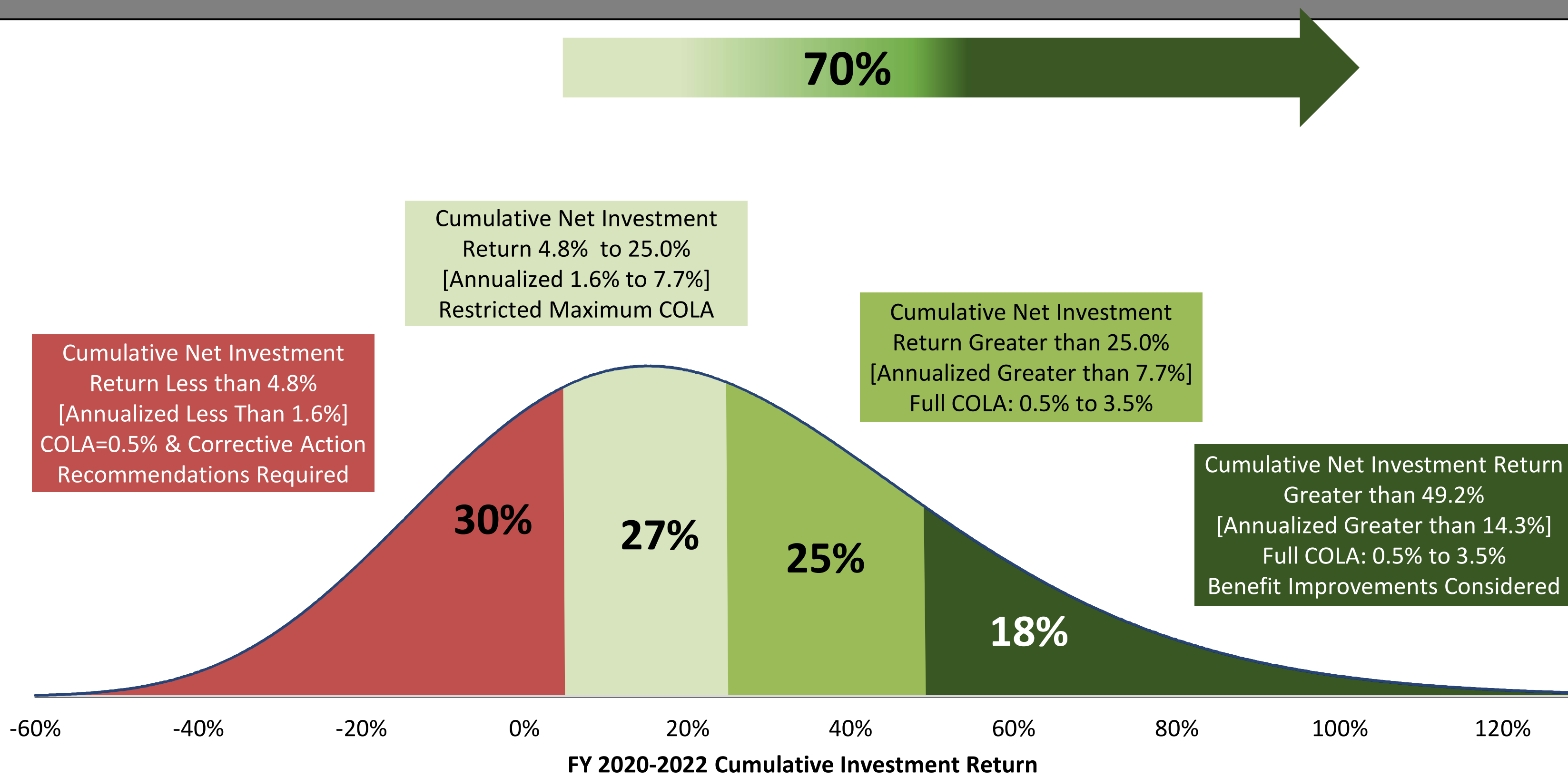
Projected Future COLA Ranges: July 2021
Assuming 4.75% Net Investment Return for FY19



- Following an assumed net investment return of 4.75% for FY19, the likelihoods for July 2021 COLA ranges, which are primarily driven by FY20 investment returns, are:
  - 19% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required
  - 41% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
  - 40% likelihood that the COLA will be CPI-W between 0.5% and 3.5%, with a 5% likelihood of considering benefit improvements

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2019 investment portfolio statistics. Assumes 2.25% annual inflation.

Projected Future COLA Ranges: July 2023
Assuming 4.75% Net Investment Return for FY19



- Following an assumed net investment return of 4.75% for FY19, the likelihoods for July 2023 COLA ranges, which are primarily driven by FY20, FY21, and FY22 investment returns, are:
  - 30% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required
  - 27% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
  - 43% likelihood that the COLA will be CPI-W between 0.5% and 3.5%, with a 19% likelihood of considering benefit improvements

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2019 investment portfolio statistics. Assumes 2.25% annual inflation.

Reasons for SDRS Success

- Outstanding investment performance has been the primary driver
- Fixed contributions, variable benefits, benefit improvement discipline, and statutory requirements for corrective actions have also been important contributors
- Investment assumptions aligned with SDIC outlook
- Risks evaluated and communicated
- Planning, goal setting, and monitoring results – adjustments to SDRS will be necessary as the future unfolds

Workforce Issues

- The number of retirements is peaking as the baby boom generation ages:
  - FY 2019 was a record year for retirements
  - May, June, and July 2019 saw a 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

- SDRS Board of Trustees expected to name Executive Director in September
- Executive Director will start in late fall

SDRS Impact on Public Pensions

- SDRS is considered a model system by a growing number of organizations
- The SDRS Board of Trustees and staff, the South Dakota Investment Council, the Legislature, the Executive Branch of State government, the members, and all stakeholders have played a part in the success of the South Dakota Retirement System and SDIC and should take pride in that success
- SDRS is currently engaged with and providing input to several organizations studying and advocating for reform of public pensions and sound public policies