



South Dakota Retirement System

SDRS Update for Executive Board of Legislative Research Council

November 19, 2019



Mission Statement and Vision

- Mission Statement:

To plan, implement, **manage**, and efficiently administer financially sustainable retirement income programs **within the fixed resources available** in accordance with fiduciary responsibilities and sound public policies

- Vision:

Provide members and their families the opportunity to achieve financial security at retirement, death, or disability by **delivering appropriate and equitable lifetime benefits**, and promote, encourage, and facilitate additional member savings for retirement



Reasons for SDRS Success

- Outstanding investment performance has been the primary driver
- Commitment to manage the system within fixed contributions distinguishes SDRS:
 - Variable benefits
 - Benefit improvement discipline
 - Statutory requirements for corrective actions
- Investment assumptions aligned with SDIC outlook
- Risks evaluated and communicated
- Planning, goal setting, and monitoring results – adjustments to SDRS will likely be necessary as the future unfolds



Policy Positions

- **Benefits:**
 - Defined benefit plan most efficient
 - Hybrid features equitably distribute benefits
 - Variable benefits essential for sustainability; COLA most logical feature to vary
 - Target specific income replacement objectives and avoid excessive benefits
 - Avoid higher than intended or artificially inflated benefits to protect scarce resources

- **Governance/Plan Management:**
 - Board of Trustees must act as fiduciaries and lead SDRS
 - Fixed contributions are prudent, benefits must be managed within resources:
 - Unpredictable variable contributions stress budgets
 - Funding issues for mature plans cannot be solved by contribution increases alone
 - Costs must be controlled
 - SDRS planning horizon is 10-20 years



Policy Positions

- Funding:
 - Specify conditions that require correction or allow benefit improvement consideration:
 - Corrective actions required if less than 100% funded or contributions insufficient
 - Benefit improvements considered if more than 120% funded if other conditions met
 - Unrealistic to rely on long-term past investment results
 - Consider future mortality improvement
 - Contributions with a 50% chance of funding liabilities not acceptable without flexible benefits
 - Risk measures developed and communicated to disclose likelihood of meeting funding policies and benefit goals



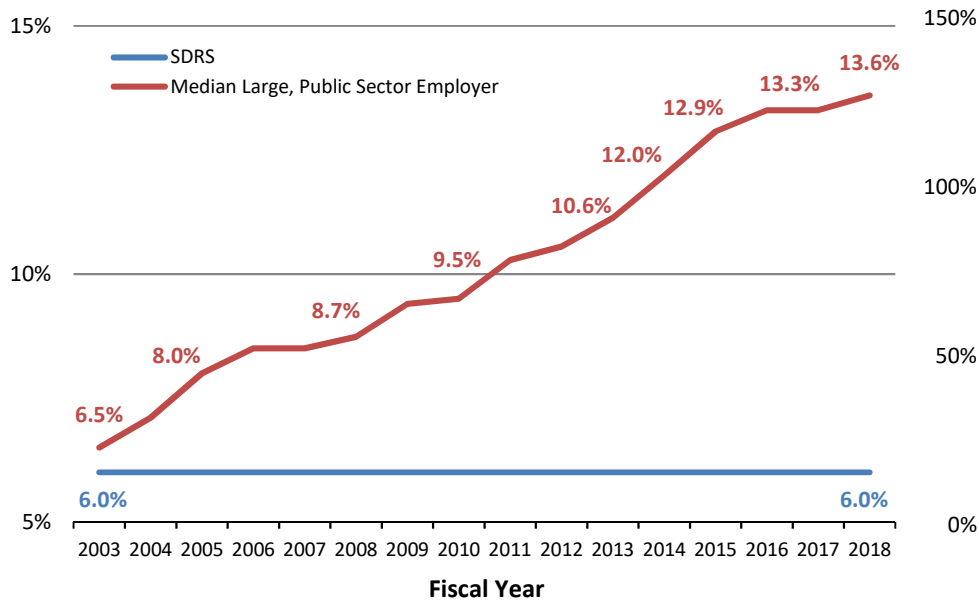
June 30, 2019 Funding Results

- SDRS goal is to pay a COLA equal to inflation and to afford the full COLA range (0.5% to 3.5%)
 - Requires a Baseline Fair Value Funded Ratio (FVFR) of 100% or more
 - Baseline FVFR with the full COLA range is 96.3% at June 30, 2019
 - As a result, COLA range must be limited
- Fair value of assets support an ongoing COLA up to 1.88%
 - July 2020 COLA is inflation between 0.5% and 1.88% restricted maximum
 - CPI-W increased 1.56% for past year
 - July 2020 COLA will be 1.56%
- Financial statements of SDRS and employers will reflect 100% funding based on the restricted maximum COLA
- The 2019 SDRS valuation is the 24th of the last 29 with a FVFR of 100% or greater

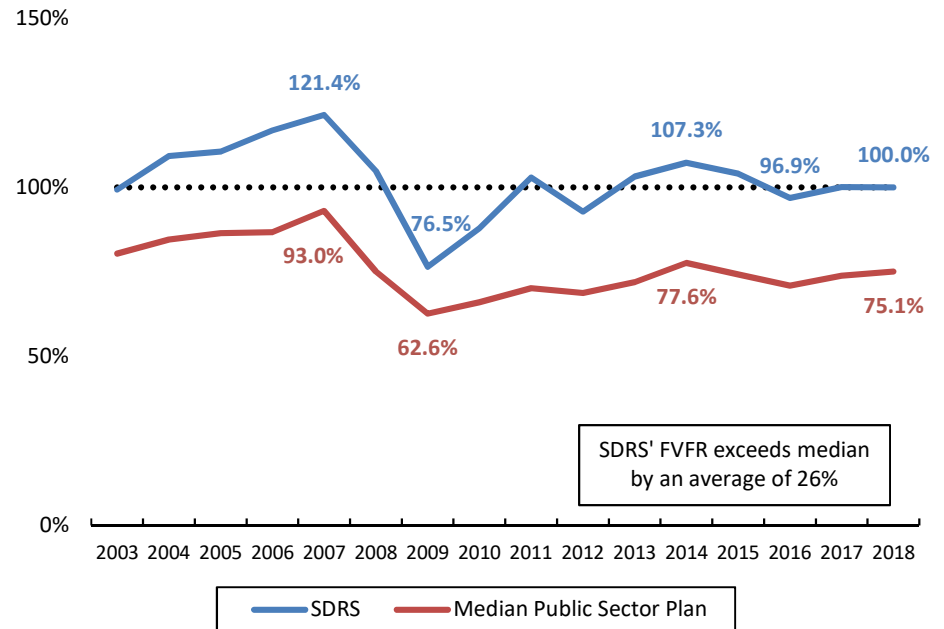


Employer Contributions and Funded Status Comparisons

Contribution Rates for General Employees



Fair Value Funded Ratio

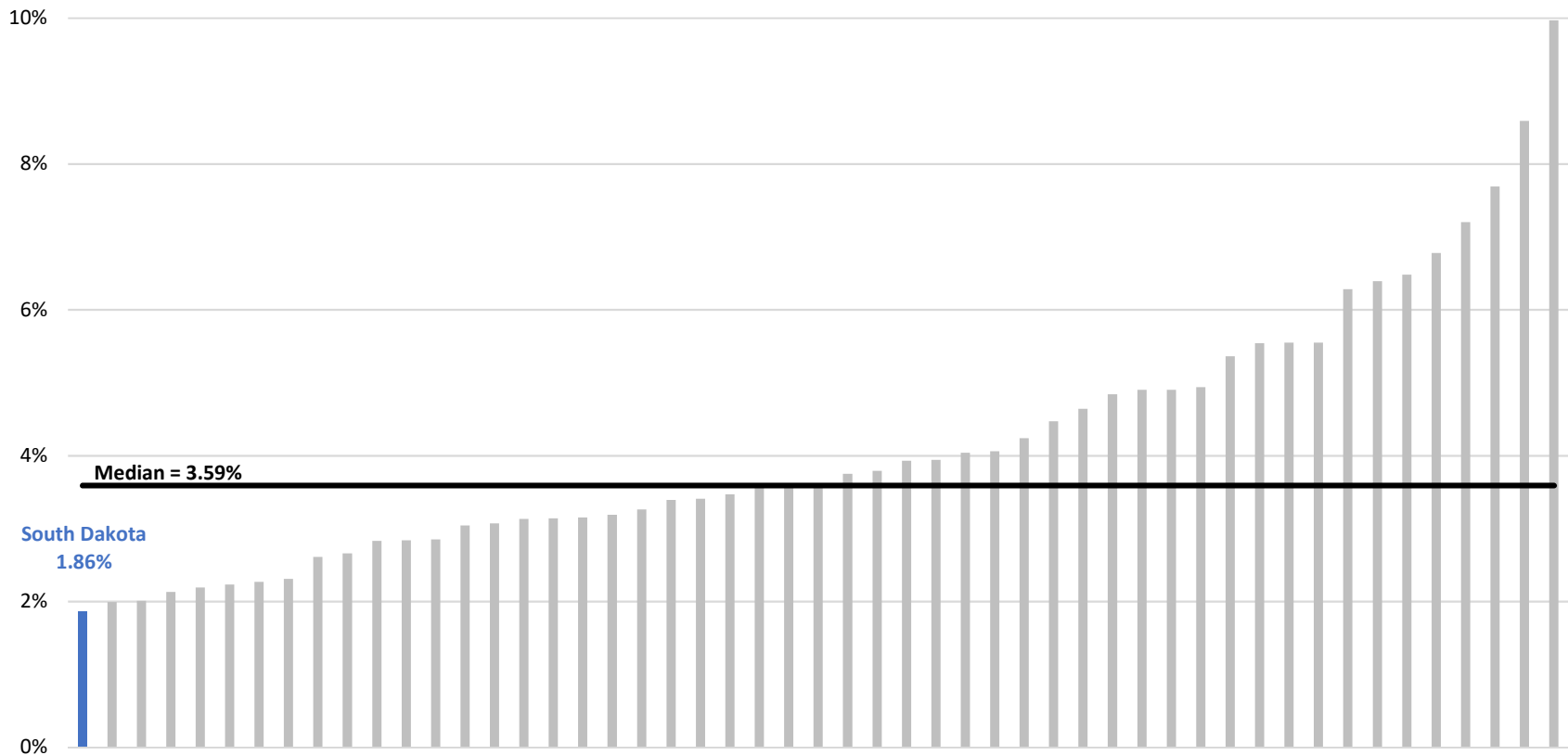


- SDRS is managed within the resources provided by fixed, statutory member and employer contributions
- Median employer contribution rate has doubled for other public retirement systems
- In most economic conditions, SDRS expects to remain 100% funded



Government Spending on Pensions Comparisons

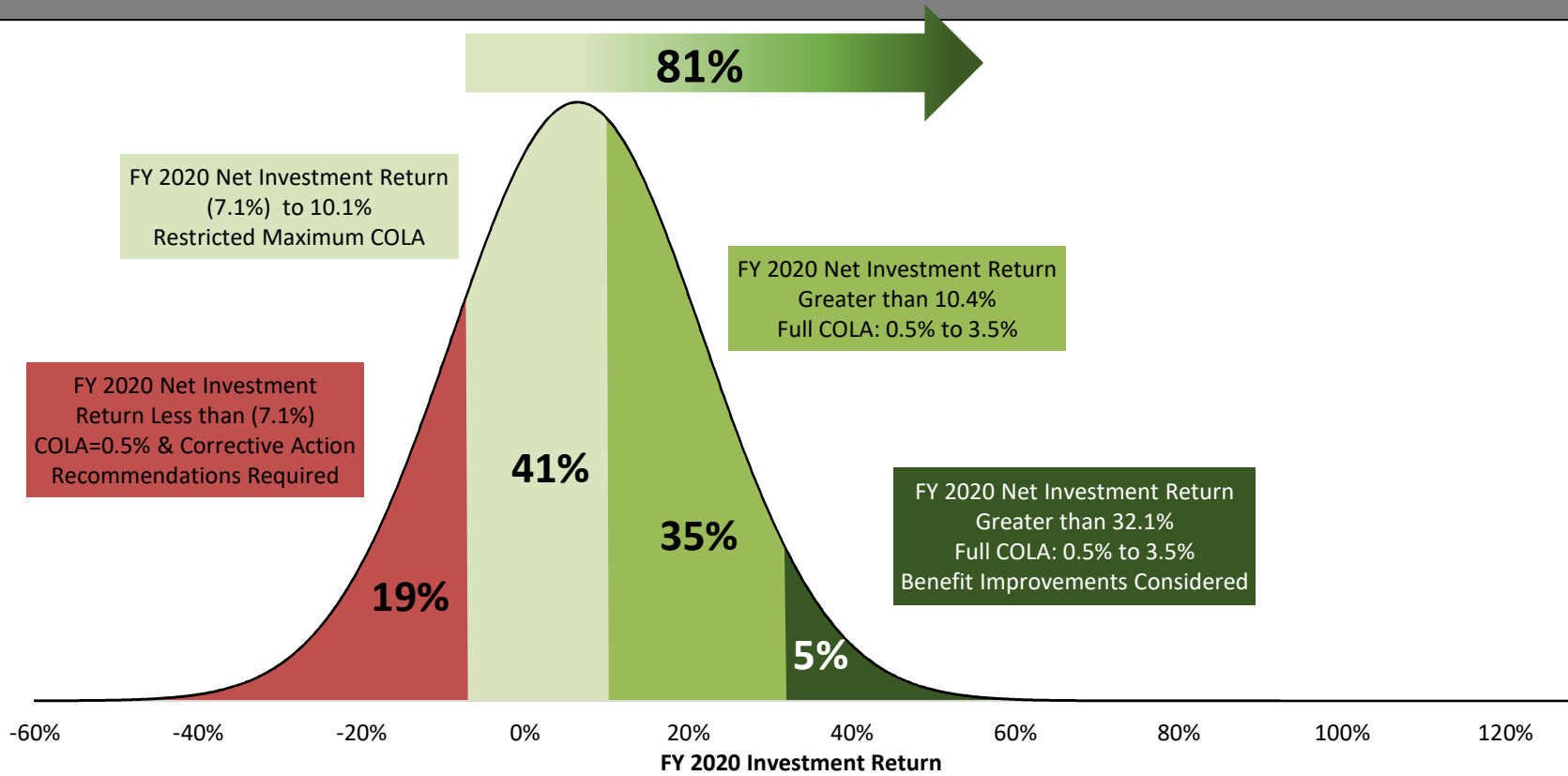
Government Contributions to Pensions as a Percent of All Direct Government Spending, FY 2016



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



Projected Future COLA Ranges: 2021



- Ignoring FY20 returns to date, 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 **benchmark** asset allocation investment portfolio statistics (mean = 6.29%, standard deviation = 15.4%).



Summary

- SDRS is managed within the resources provided by fixed contributions
- SDRS will pay a COLA equal to inflation and is fully funded as of June 30, 2019, meeting both the inflation protection and funding goals
- Under most economic conditions, SDRS variable benefits will result in full funding:
 - If investment returns significantly lag assumptions, corrective actions may be required
 - If investment returns significantly exceed assumptions, benefit improvements may be possible
- Future changes will likely be required to manage the system in changing economic conditions
- Investment performance and commitment to managing liabilities result in 100% funding – significantly better than most state retirement systems