# South Dakota Retirement System – Appropriations Hearing 2019

## I. Overview

The South Dakota Retirement System (SDRS) is a cost-sharing, multiple-employer public employee retirement system established to provide retirement, disability, and survivor benefits for employees of the state of South Dakota and its political subdivisions. Members of SDRS are full-time employees of over 490 employers, which include public schools, the State, the Board of Regents, city and county governments, and other public entities.

The SDRS Board of Trustees is the governing authority of SDRS. Because the trustees actively lead SDRS, the trustees must possess the expertise, knowledge, and resources necessary to govern and act as fiduciaries to recommend benefit and funding policies.

## II. SDRS Mission Statement, Vision, and Long-term Income Replacement Goals

**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.

## III. Benefit Structure

SDRS is a hybrid defined benefit plan designed to include several defined contribution plan type provisions. The system consists of Class A general members and Class B public safety and judicial members. The right to receive retirement benefits vests after three years of contributory service. Members and their employers make matching contributions, which are defined in state statute. The employer contribution rates are less than half of the national average.

SDRS believes that a well-funded defined benefit plan with fixed, shared member and employer contributions and hybrid, variable benefit features is the most efficient and advantageous design for members, employers, and taxpayers.

## IV. Financially Sound Plan

As of June 30, 2018, SDRS is 100 percent funded based on the Fair Value of Assets (current assets compared to the value of benefits accrued to date), and all the Board's funding objectives have been met. In short, SDRS does not have any unfunded liabilities. While the 2018 results have not yet been reported for all other plans, SDRS is the only statewide public pension plan that was 100 percent funded for fiscal year 2017.

This marks the twenty-third time out of the last twenty-eight actuarial valuations that SDRS has been at least 100 percent funded on a fair value basis. On an accounting basis, SDRS and its participating employers will report a small Net Pension Asset and the total impact on employers' balance sheets will remain an asset.

SDRS' fully funded status is a rare accomplishment. The SDRS 100 percent Funded Ratio compares to an estimated average of 71 percent for all statewide plans. This funding difference would be wider if calculated on a comparable basis because SDRS uses a more conservative investment return assumption than nearly all other statewide plans.

## V. Member Focused Plan / Communication and Education

SDRS provides open, accurate, and timely communications to all stakeholders of the plan as well as transparent information relating to the fiscal condition and management of SDRS. Our objective is to assist members and other stakeholders in understanding the rationale for the board's objectives, decisions, and strategies. This effort is critical to the 10 percent of public employees who are currently eligible for unreduced retirement benefits and the 25 percent who will be eligible in five years.

## VI. Challenges and Opportunities

The last several years have been historically challenging for public retirement systems like SDRS for several reasons:

- Extremely volatile capital markets
- The lowest investment return expectations in decades
- Significant mortality improvements resulting in longer life expectancies
- New accounting standards that allocate retirement system assets/liabilities to participating employers' balance sheets
- Maturing retirement plans and a demographic and workforce shift as the baby boomer generation transitions into retirement

SDRS has met these challenges by adopting actuarial assumptions that reflect the reality of today's environment and expanding SDRS' hybrid and variable benefit features, which together result in SDRS remaining fully funded based on the fixed, statutory contributions. These actions have strengthened the sustainability of SDRS.

The SDRS Board of Trustees will continue to analyze risks and evaluate SDRS sustainability under all economic conditions. SDRS remains fully committed to the SDRS hybrid defined benefit plan model that is fiscally responsible, efficient, and provides appropriate retirement income to our members within our available resources.

## VII. Recognition

The Society of Actuaries (SOA), the research and education professional actuarial organization, has an ongoing initiative called Retirement 20/20, with the goal of recognizing innovative retirement plan designs better suited for the economic and demographic needs of North America in the 21st century. In the fall of 2017, as part of this initiative, the SOA issued a Call for Models on governmental pension designs, seeking real world solutions that provide secure retirement benefits in a sustainable design. SDRS submitted a paper based on its Generational benefit design effective in 2017. We are proud that SDRS was one of four designs honored by the SOA.

In a Pew Charitable Trusts study published earlier this year, "The State Pension Funding Gap: 2016", the South Dakota Retirement System was recognized as one of the two best-funded public pension plans in the nation. In 2016, SDRS had funded 97 percent of the plan's accrued liabilities (the ratio increased to 100 percent in 2017 and 2018).

In addition, SDRS was recently recognized as a national finalist for innovation in the design and operation of the SDRS Supplemental Retirement Plan by Chief Investment Officer (CIO) Magazine.

The effectiveness and efficiency of the SDRS approach is highlighted by a recent report from the National Institute on Retirement Security that evaluated the total economic output per dollar of taxpayer contribution in each state. South Dakota had the highest total output per taxpayer contribution dollar of any state, 18 percent higher than the next best and 110 percent higher than the average state.

The honor from the Society of Actuaries and the recognition from Pew Charitable Trusts, CIO Magazine, and the National Institute on Retirement Security highlight the sound fiscal management and financial condition of the South Dakota Retirement System.

## VIII. Budget / Expenditure Authority

The budget of SDRS is not supported by general funds but consists entirely of other fund expenditure authority from the SDRS trust fund. SDRS may expend up to three percent of the annual contributions for administrative expenses subject to approval by the Executive and Legislative branches of the state. The operating budget for FY 2019 is $4.57 million, which is less than two percent of the annual contributions.

## IX. Legislative Items

This year, the main piece of the SDRS legislative package is the reorganization of all the statutes relating to SDRS. This was a major undertaking, but passage will enhance the reader's ability to understand how SDRS works and generally make the laws more user-friendly. In addition, SDRS will recommend a clean-up bill, consisting mainly of revisions to statutes identified during the reorganization as outdated or obsolete, but also including a revision necessary to be in compliance with IRS rulings.

## X. Operational Highlights

**Benefits Payable:** As of June 30, 2018, SDRS provides $556 million in ongoing monthly retirement, disability, and survivor benefits. Over $486 million is distributed among South Dakota counties, positively impacting the state's economy.

**Personal Savings:** SDRS continues to raise awareness of the importance of personal retirement savings to meet employee retirement income goals. These additional resources will provide added financial security to members during retirement. SDRS members are encouraged to save through the SDRS Supplemental Retirement Plan or any other retirement savings program.

*The success of SDRS has been achieved through the prudent oversight of the Board of Trustees, the outstanding long-term success of the South Dakota Investment Council, and the ongoing support of the Executive and Legislative branches of state government and the SDRS membership. SDRS continues to be one of the most financially sound public employee retirement systems in the nation and is well-positioned to confront the challenges of the future.*

*Both SDRS and the Investment Council have benefited from the longevity of their senior staff and consultants.  I am scheduled to retire on or about the end of 2019 after 16 years in that position and a total of 37 years with SDRS. The SDRS Board of Trustees has implemented a succession plan and anticipates naming a successor Executive Director prior to my retirement*

# SOUTH DAKOTA

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

# Pensionomics 2018:

*Measuring the Economic Impact of DB Pension Expenditures*

## Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of South Dakota.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2016, expenditures stemming from state and local pensions supported...

- 6,567 jobs that paid $285.3 million in wages and salaries
- $968.8 million in total economic output
- $128.6 million in federal, state, and local tax revenues

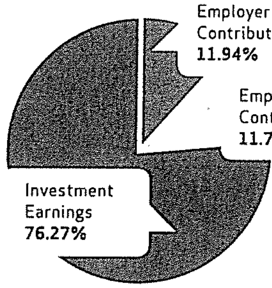
... in the state of South Dakota.

Each dollar paid out in pension benefits supported $1.46 in total economic activity in South Dakota.

Each dollar "invested" by South Dakota taxpayers in these plans supported $12.27 in total economic activity in the state.

## Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to South Dakota communities and the state economy. In 2016, 31,507 residents of South Dakota received a total of $661.5 million in pension benefits from state and local pension plans.




The average pension benefit received was $1,750 per month or $20,994 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2016, 11.94% of South Dakota's pension fund receipts came from employer contributions, 11.79% from employee contributions, and 76.27% from investment earnings.* Earnings on investments and employee contributions—not taxpayer based contributions—have historically made up the bulk of pension fund receipts.

## Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 6,567 jobs in the state. The total income to state residents supported by pension expenditures was $285.3 million.

To put these employment impacts in perspective, in 2016 South Dakota's unemployment rate was 3.0%. The fact that DB pension expenditures supported 6,567 jobs is significant, as it represents 1.2 percentage points in South Dakota's labor force.

## Economic Impact

State and local pension funds in South Dakota and other states paid a total of $661.5 million in benefits to South Dakota residents in 2016. Retirees' expenditures from these benefits supported a total of $968.8 million in total economic output in the state, and $510.7 million in value added in the state.

$434.9 million in direct economic impacts were supported by retirees' initial expenditures. An additional $311.3 million in indirect impact resulted when these businesses purchased additional goods and services. $222.6 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact **$968.8 million**

| DIRECT IMPACT | INDIRECT IMPACT | INDUCED IMPACT |
|---|---|---|
| **$434.9 million** | **$311.3 million** | **$222.6 million** |

Totals may not add up due to rounding. For data and methodology, see Boivie, I., 2018, *Pensionomics 2018: Measuring the Economic Impact of DB Pension Expenditures*, National Institute on Retirement Security, Washington, DC, www.nirsonline.org. Results not directly comparable to previous *Pensionomics* due to methodological refinements.

Figure 5: **Taxpayer Investment Factors by State**