



South Dakota Retirement System

South Dakota Retirement System Return to Work Provisions

December 3, 2008



Return to Work Provisions

- Current provisions effective July 1, 2004
- Benefits of members who retired under a reduced early benefit are suspended and COLA eliminated during reemployment
- Benefits of members who retired when eligible for normal or special early retirement continue, but the COLA is eliminated during reemployment
- Employee is treated as a new member for period of reemployment
- COLA continues during reemployment for members who retired from Class B Public Safety and return as Class A members

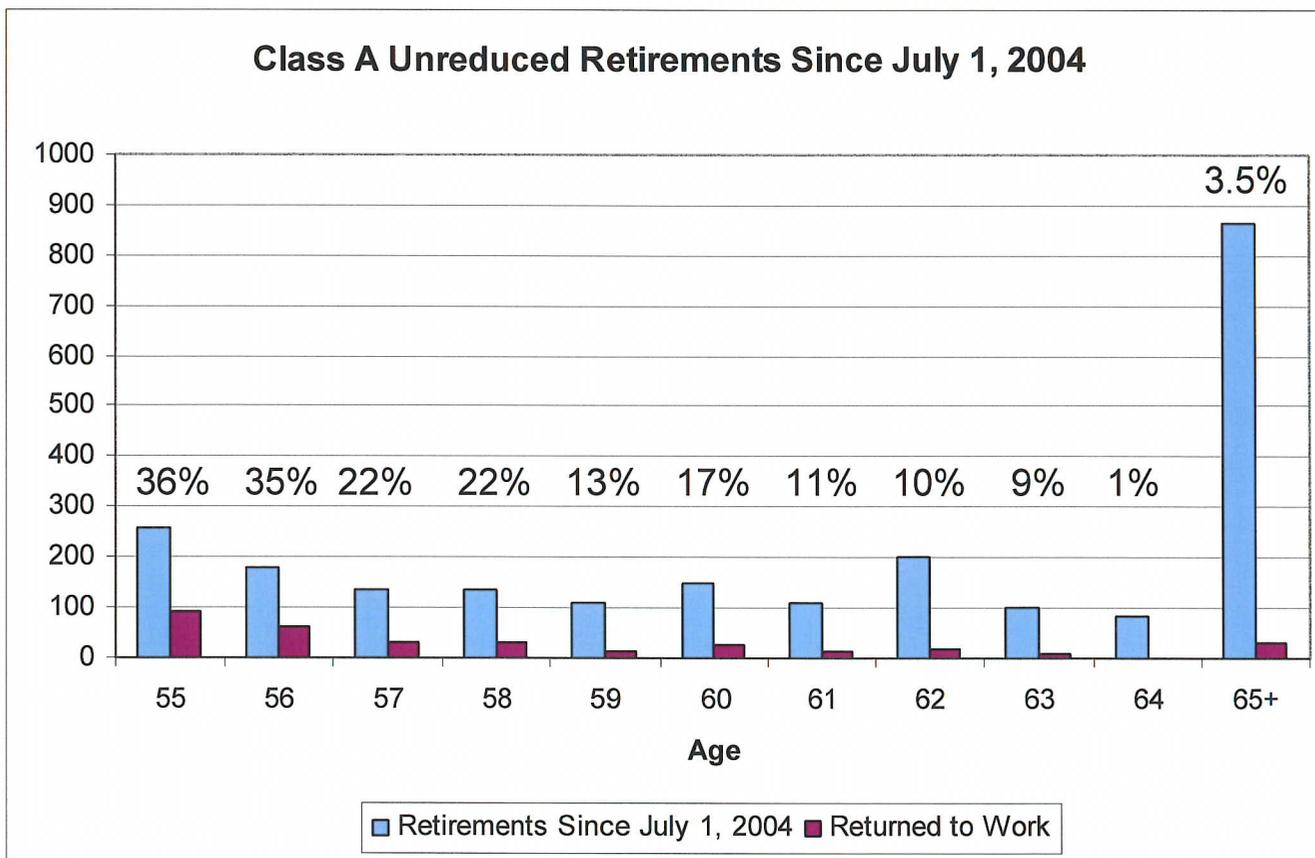


Return to Work Utilization Since July 1, 2004

- Total of 700 retirees are currently reemployed
- Current data includes 507 retired members that have returned to work since July 1, 2004 (444 from Class A and 63 from Class B PS)
- Of the 507 reemployed members, 407 (80%) remain reemployed (354 Class A, 53 Class B PS)
- Of the 507 reemployed members:
 - 368 (73%) were reemployed within 3 months of retiring (329 Class A, 39 Class B PS)
 - Another 17 (3%) were reemployed after 3 months, but within 6 months of retiring (14 Class A, 3 Class B PS)
 - 122 (24%) were reemployed after 6 months (101 Class A, 21 Class B PS)
- Average age and service at initial retirement date was:
 - Age 58.3 with 29.3 years of service for Class A (Age 58.1 with 30.6 years of service for those returning within 3 months)
 - Age 52.7 with 25.3 years of service for Class B Public Safety (Age 53.2 with 25.4 years of service for those returning within 3 months)
- 3.2% of retirees as of June 30, 2008 have returned to work, 10.8% of members who retired after June 30, 2004 have returned to work, 14.7% of members who retired after June 30, 2004 with an unreduced benefit have returned to work

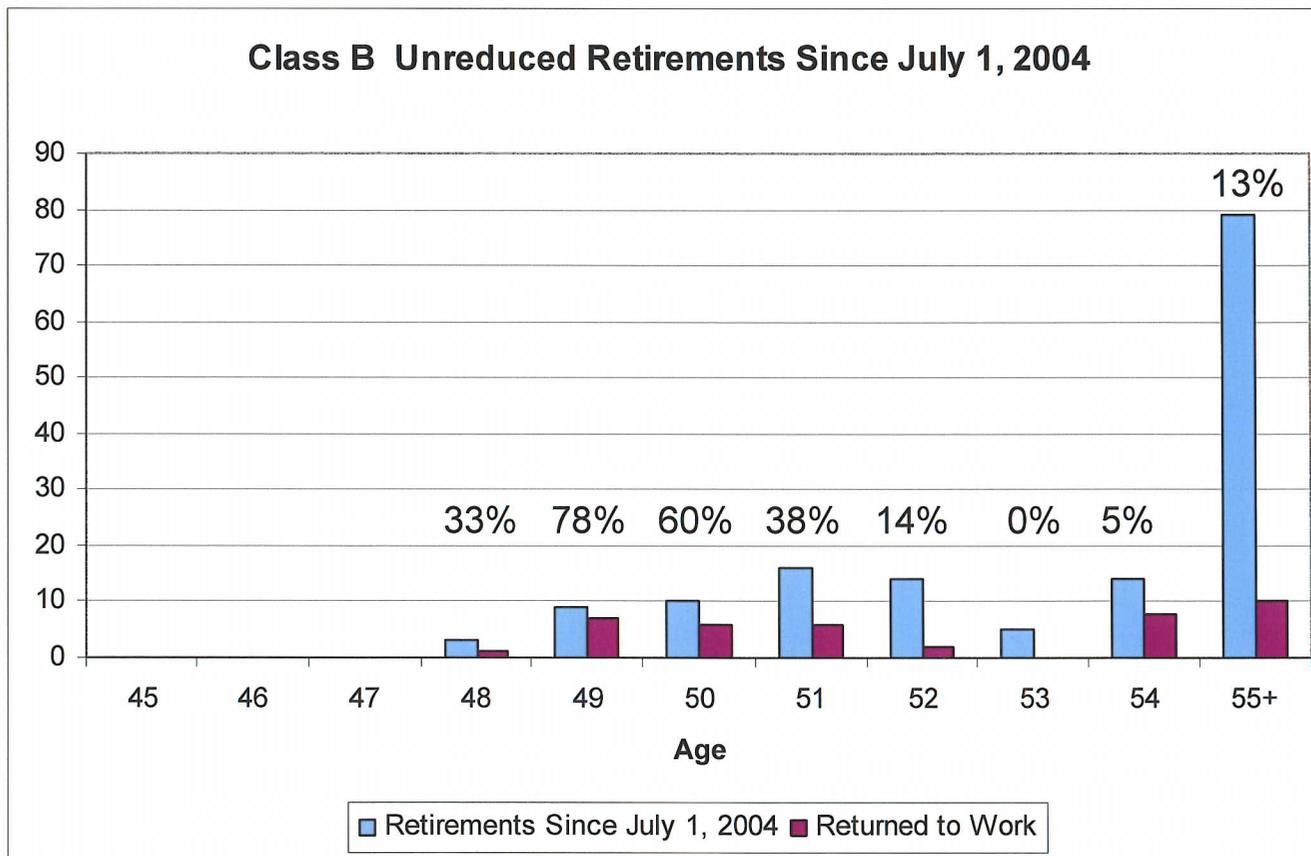


Percentage of Unreduced Retirements Returning to Work Since July 1, 2004





Percentage of Unreduced Retirements Returning to Work Since July 1, 2004





Return to Work Utilization Since July 1, 2004

Return to Work Data by Plan Year of Reemployment

Class A Members

Plan Year of Reemployment	Number Reemployed	Terminated Members	Remaining Reemployed Members	Percent Still Reemployed at June 30, 2008	Average Length of Reemployment
July 1, 2004 – June 30, 2005	92	25	67	73%	3.2 years
July 1, 2005 – June 30, 2006	106	31	75	71%	2.3 years
July 1, 2006- June 30, 2007	112	14	98	88%	1.6 years
July 1, 2007 – June 30, 2008	134	20	114	85%	0.7 years

Class B Members

Plan Year of Reemployment	Number Reemployed	Terminated Members	Remaining Reemployed Members	Percent Still Reemployed at June 30, 2008	Average Length of Reemployment
July 1, 2004 – June 30, 2005	12	0	12	100%	3.5 years
July 1, 2005 – June 30, 2006	12	3	9	75%	2.0 years
July 1, 2006- June 30, 2007	24	5	19	79%	1.5 years
July 1, 2007 – June 30, 2008	15	2	13	87%	0.5 years

- Although sufficient data is not yet available to definitely determine the average length of reemployment, the existing data indicates an average length of reemployment of more than 3 years.



Cost Impact of Return to Work Provisions

- Provisions were designed to be cost neutral and to not adversely affect funded status of SDRS
- SDRS Board of Trustees and staff continue to review actual experience and determine cost neutrality
- September, 2007 review looked at a comparison of the cost for the member as a retiree with the cost for the member as a reemployed retiree
 - Review showed if a retired member returns to work, the value of the forfeited COLA is greater than the value of the additional benefit earned, resulting in a modest cost savings to the Plan
- High percentage (73%) of members returning to work within 3 months indicates the member's decision may be between remaining active versus retiring and immediately returning to work
 - If return to work provisions are enticing members who would have remained active to retire with the intent to immediately return to work, the result would be a cost to the plan
- The following example analyzes the cost/benefit impact of a member who has returned to work from the perspective of the member and from the perspective of the Plan

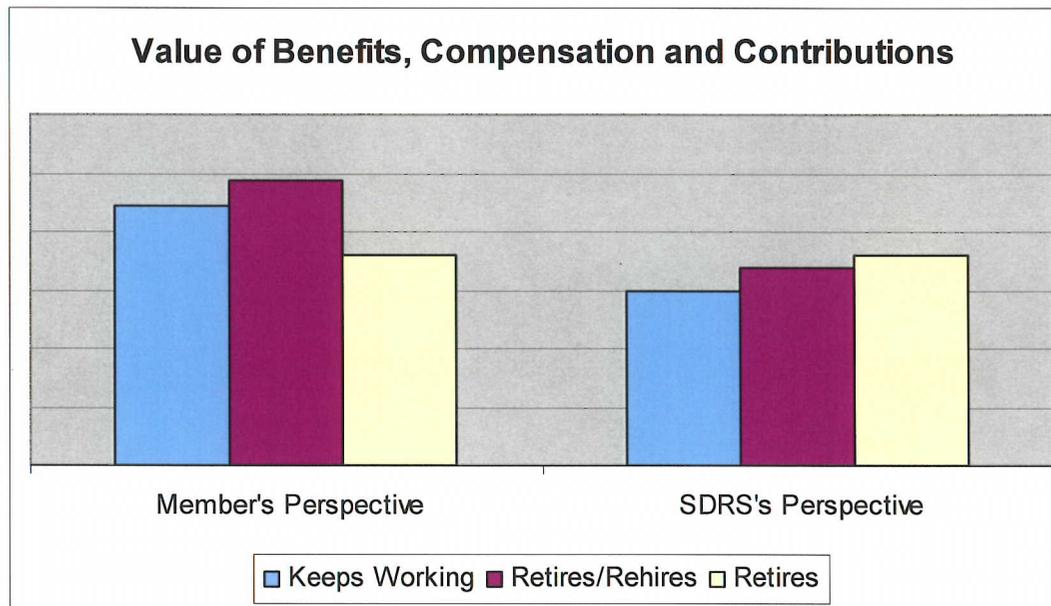


Return to Work Example – Data and Benefits

- Female Class A member who retires July 1, 2004 at age 55 with 35 years of service (multiplier assumed to be 1.7% since retirement) and is rehired immediately
- Member remains reemployed for 4 additional years, retiring a second time with an additional monthly benefit
- Member is married with a spouse two years older
- Member is choosing at July 1, 2004 between:
 - Remaining active until July 1, 2008 and then retiring
 - Retiring July 1, 2004 and returning to work until July 1, 2008
 - Retiring July 1, 2004
- All Present Values are determined as of July 1, 2004



Return to Work Example



- **Member's Perspective**
 - The member benefits by retiring and returning to work rather than remaining active
 - The member benefits by retiring and returning to work rather than remaining retired
- **SDRS's Perspective**
 - SDRS realizes additional cost if a member retires and returns to work rather than remaining active
 - SDRS realizes a cost savings if a member retires and returns to work rather than remaining retired
 - Since 73% of members who return to work do so within three months, it appears most of these members are deciding to retire and return to work rather than remaining active
- Calculation details are shown in the Appendix



Cost Increase When Members Retire Earlier Due to Return to Work

- The increase in cost for a member that would have remained active, but decides to retire and return to work varies by the member's age, service and length of time the member remains active (either before retiring or after retiring and returning to work)
- Below are various ages and the costs increases, by percentage of original cost, for members retiring and returning to work for 3 and 5 year periods
- SDRS actuarial assumptions were used except for retirement
- Retirement date was assumed to be known with certainty for each member at the time the decision between remaining active and retiring is made
- The final cost recognizes the suspension of the COLA during the reemployment period and values the additional benefit earned



Cost Increase When Members Retire Earlier Due to Return to Work

- The figure below shows the percentage cost increase to SDRS if a member is planning to retire in 3 or 5 years, but utilizes the return to work provisions to retire immediately and return to work for the same period

		Cost Increase to SDRS for Additional Service Period of:	
Age at Decision	Service at Decision	3 Years	5 Years
55	30	7.4%	13.9%
60	25	11.3%	20.8%
62	23	13.3%	23.2%
65	20	15.2%	26.7%

- SDRS incurs additional cost when members, who would have otherwise remained active, retire and return to work
- The return to work provisions may address employers' workforce and staffing issues, but does so at SDRS's expense
- They also provide a significant increase in the member's total compensation

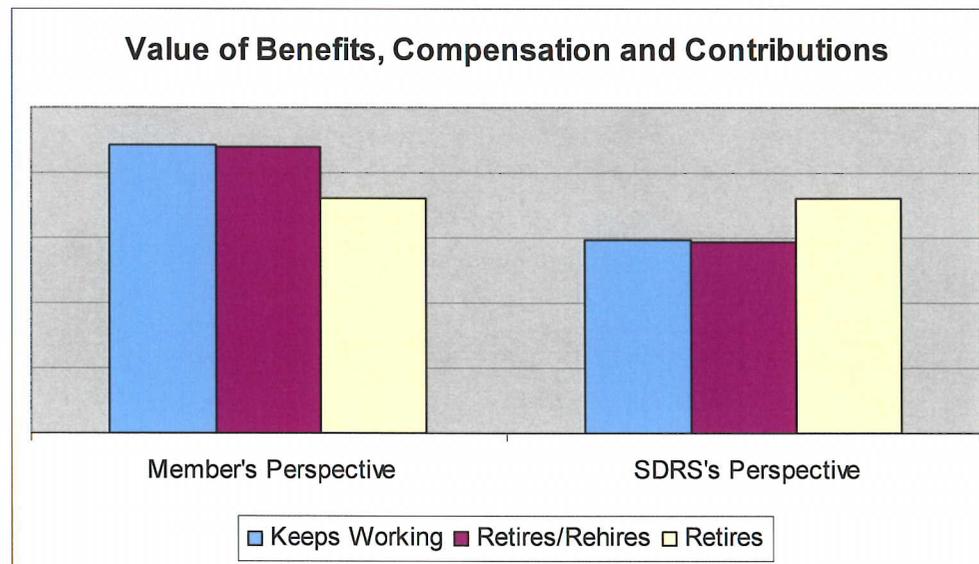


Proposed Modifications to Return to Work Provisions

- Retain current provision suspending benefit and eliminating COLA for members returning after regular early retirement
- For members returning after special early or normal retirement:
 - Retain current provision regarding elimination of COLA during reemployment period
 - Retain current provision requiring member contributions and treatment of member as new member for reemployment period
 - Reduce SDRS benefit by 50% while reemployed
 - Suspend SDRS benefit after 3 years of reemployment
- These provisions would:
 - Ensure SDRS does not bear additional cost for return to work provisions
 - Provide a phase-in to retirement without providing a windfall to the member
- The prior example with these proposed modifications follows



Return to Work Example - Proposed Modifications



- **Member's Perspective**
 - The member does not benefit by retiring and returning to work rather than remaining active
 - The member benefits by retiring and returning to work rather than remaining retired
- **SDRS's Perspective**
 - SDRS does not incur additional costs if a member retires and returns to work rather than remaining active
 - SDRS realizes a cost savings if a member retires and returns to work rather than remaining retired
- Calculation details are shown in the Appendix



Cost Increase When Members Retire Earlier Due to Return to Work Proposed Modified Provisions

- The figure below shows the percentage cost increase/(decrease) to SDRS if a member is planning to retire in 3 or 5 years, but utilizes the return to work provisions to retire immediately and return to work for the same period

		Cost Increase for Additional Service Period of:	
Age at Decision	Service at Decision	3 Years	5 Years
55	30	(1.9%)	(7.5%)
60	25	1.0%	(3.3%)
62	23	2.4%	(2.3%)
65	20	3.4%	(1.2%)
62	30	2.7%	(2.1%)

- SDRS realizes a cost savings in most cases and a small increase in other cases when members who would have remained active retire and return to work



Return to Work Example – Proposed Modified Provisions – Conclusions

- **Member's Perspective**
 - Under the proposal the member receives approximately the same total compensation value to retire and return to work rather than remain active.
- **Plan's Perspective**
 - Under the proposal, SDRS would not incur additional cost when members retire and return to work rather than remaining active
 - The cost differential provided varies by age, service and length of reemployment under each proposal, but is much smaller
 - SDRS would realize a greater savings when retirees decide to return to work
- **Other Considerations**
 - SDRS could consider using the provisions of the Pension Protection Act to offer an in-service distribution option for those age 62 with 30 years of service at minimal or no cost to the plan (may provide some workforce relief for employers).



Discussion Points

- Should the cost neutrality of the retirees back to work provisions be the sole condition to evaluate the continued operation of this benefit? (What are the consequences if so?)
- Should the Board continue to monitor this experience and get input from stakeholders before taking action? (What are the consequences of either waiting or proceeding now with changes?)



Appendix

- Return to work example calculation details



Return to Work – Member’s Perspective Current Provisions

	Member Remains Active Until July 1, 2008	Member Retires July 1, 2004 and Returns to Work Until July 1, 2008	Member Retires July 1, 2004
Present Value of July 1, 2004 Retirement Benefit		<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 15.0423 (immediate benefit at 55 with COLA starting at age 59) ▪ Present Value - \$647,831 	<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 16.7001 (immediate benefit at 55 with immediate COLA) ▪ Present Value - \$719,228
Present Value of Salaries Less Employee Contributions	▪ Present Value - \$259,007	▪ Present Value - \$259,007	
Present Value of Additional Benefit Earned		<ul style="list-style-type: none"> ▪ Benefit - \$463 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$64,305 	
Present Value of July 1, 2008 Retirement Benefit	<ul style="list-style-type: none"> ▪ Benefit - \$4,513 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$626,977 		
Total Present Value	\$885,984	\$971,142	\$719,228



Return to Work – SDRS's Perspective Current Provisions

	Member Remains Active Until July 1, 2008	Member Retires July 1, 2004 and Returns to Work Until July 1, 2008	Member Retires July 1, 2004
Present Value of July 1, 2004 Retirement Benefit		<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 15.0423 (immediate benefit at 55 with COLA starting at age 59) ▪ Present Value - \$647,831 	<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 16.7001 (immediate benefit at 55 with immediate COLA) ▪ Present Value - \$719,228
Present Value of Employee Contributions	▪ Present Value – (\$33,065)	▪ Present Value – (\$33,065)	
Present Value of Additional Benefit Earned		<ul style="list-style-type: none"> ▪ Benefit - \$463 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$64,305 	
Present Value of July 1, 2008 Retirement Benefit	<ul style="list-style-type: none"> ▪ Benefit - \$4,513 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$626,977 		
Total Present Value	\$593,913	\$679,071	\$719,228



Return to Work Example – Member’s Perspective – Proposed Modified Provisions

	Member Remains Active Until July 1, 2008	Member Retires July 1, 2004 and Returns to Work Until July 1, 2008	Member Retires July 1, 2004
Present Value of July 1, 2004 Retirement Benefit		<ul style="list-style-type: none"> ▪ Benefit - \$3,589 * .5 = \$1,794 ▪ PV Factor – 2.69412 ▪ (immediate benefit at 55, with no COLA and stopping at 58) ▪ Present Value - \$58,014 ▪ Benefit - \$3,589 ▪ PV Factor – 11.57768 ▪ (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$498,619 ▪ Total Present Value - \$556,633 	<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 16.7001 (immediate benefit at 55 with immediate COLA) ▪ Present Value - \$719,228
Present Value of Salaries Less Employee Contributions	▪ Present Value - \$259,007	▪ Present Value - \$259,007	
Present Value of Additional Benefit Earned		<ul style="list-style-type: none"> ▪ Benefit - \$463 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$64,305 	
Present Value of July 1, 2008 Retirement Benefit	<ul style="list-style-type: none"> ▪ Benefit - \$4,513 ▪ PV Factor – 11.57768 (benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$626,977 		
Total Present Value	\$885,984	\$879,945	\$719,228



Return to Work Example – SDRS’s Perspective – Proposed Modified Provisions

	Member Remains Active Until July 1, 2008	Member Retires July 1, 2004 and Returns to Work Until July 1, 2008	Member Retires July 1, 2004
Present Value of July 1, 2004 Retirement Benefit		<ul style="list-style-type: none"> ▪ Benefit - \$3,589 * .5 = \$1,794 ▪ PV Factor – 2.69412 ▪ (Immediate benefit at 55, with no COLA and stopping at 58) ▪ Present Value - \$58,014 ▪ Benefit - \$3,589 ▪ PV Factor – 11.57768 ▪ (Benefit deferred to age 59 with COLA starting at age 59) ▪ Present Value - \$498,619 ▪ Total Present Value -\$556,633 	<ul style="list-style-type: none"> ▪ Benefit - \$3,589 ▪ PV Factor – 16.7001 (immediate benefit at 55 with immediate COLA) ▪ Present Value - \$719,228
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Total Present Value	\$593,913	\$587,873	\$719,228