South Dakota Retirement System

SDRS Funded Status Overview
Cement Plant Retirement Plan (CPRP) Introduction

As of June 30, 2010

For presentation to the Retirement Laws Committee on December 7, 2010

explore excellence[sm]

buckconsultants
A Xerox Company

SDRS Funding Policy

Funding Objectives (Discussed at the Quadrennial Funding Study presentations in 1999 and 2002, and formally adopted April 2006)	**Establishment of Reserve** (The Reserve for Funding of Long-Term Benefit Goals, adopted in 1995 and later revised in 1998 and 2001)	**Policy Regarding Consideration of Benefit Improvements** (Adopted in 2004)	**Statutory Conditions That Would Require Corrective Action** (SDCL 3-12-122, refined during 2004 Legislative Session)

• Funded Ratio (Assets Actuarial Accrued Liabilities)
  – Based on Market Value of Assets – 95%
  – Based on Actuarial Value of Assets – 95%
• Ratio of Market Value of Assets to Actuarial Value of Assets – exceed 100%
• Funding Period – 30 years
• Achieving and maintaining a Funded Ratio (based both on Market Value and Actuarial Value of Assets) in excess of 95% at each actuarial valuation with the Funded Ratio projected over a 10-year period to have a:
  – 90% or better chance of staying level or increasing
  – 90% or better chance of exceeding 95%
	• Captures all net favorable experience
	• Delays recognition of asset gains (and experience gains/losses) but recognizes asset losses immediately
	• Eliminates volatility in actuarial measures
	• Provides resources to
	  – Protect SDRS during times of unfavorable experience, and
	  – Pre-fund benefit improvements
		• After consideration of the expense of the benefit improvement the Cushion must be at least 23% of the actuarial value of assets
		• In addition, the following guidelines must be satisfied
		  – Reserve is sufficient to fully fund the present value of the benefit improvement
		  – After consideration of the recommended benefit improvement basic funding objectives must still be met
		  – Proposed benefit improvement must be consistent with the Board's long-term benefit goals and public policy with regard to retirement practices
			• Funded status report to Governor and Retirement Laws Committee (RLC) if any of the following exists
			  – Contributions not sufficient to fund current benefit structure
			  – Funded Ratio (based on Market or Actuarial Value) less than 80%
			  – Market Value of Assets less than 90% of the Actuarial Value of Assets
			• If any of the above conditions exist for three consecutive actuarial valuations, the following recommendations shall be made by the Board to the Governor and RLC, effective as soon as possible to improve the SDRS funded status
			  – Benefit reductions
			  – Contribution changes
			  – Combination of the two

South Dakota Retirement System Funded Status Comparisons

	06/30/2007		06/30/2008		06/30/2009		06/30/2010	
	SDRS	Survey[1] Averages	SDRS	Survey[1] Averages	SDRS	Survey[1] Averages	SDRS	Survey[2] Averages
Funded Ratio (Actuarial Value of Assets)	97%	87%	97%	82%	92%	72%	96%	71%
Funded Ratio (Market Value of Assets)	121%	95%	105%	79%	76%	59%	88%	65%

(1) From 2010 Wilshire report on State Retirement Systems: Funding Levels and Asset Allocation. Survey averages based on statewide public retirement plans surveyed with measurement dates of June 30 or December 31.

(2) Buck Consultants' estimates based on 2010 Wilshire Report.

SDRS Projected Funded Status as of June 30, 2011

Projected Funded Status Includes 2010 Corrective Action

If Investment Return for Year Ending June 30, 2011 is	Actuarial Value Funded Ratio(1) at June 30, 2011	Market Value Funded Ratio(1) at June 30, 2011	Additional Unfunded Actuarial Accrued Liability as of June 30, 2011(1)(2)
5.00%	96%	86%	N/A
7.75%	96%	88%	N/A
10.00%	96%	90%	N/A
12.50%	96%	92%	N/A
At June 30, 2010	96%	88%	N/A(3)
At June 30, 2009	92%	76%	$ (355M)(3)

(1) Before consideration of liability gains/losses for year ending June 30, 2011.

(2) The Actuarial Value of Assets cannot be less than 80% or more than 120% of the Market Value of Assets. If the Actuarial Value reaches 120% of Market Value, the Actuarial Value is decreased and additional Unfunded Liabilities are created.

(3) June 30, 2009 Additional Unfunded Accrued Liability were eliminated by enacted corrective actions recognized at June 30, 2010.

SDRS Projected Required Investment Return

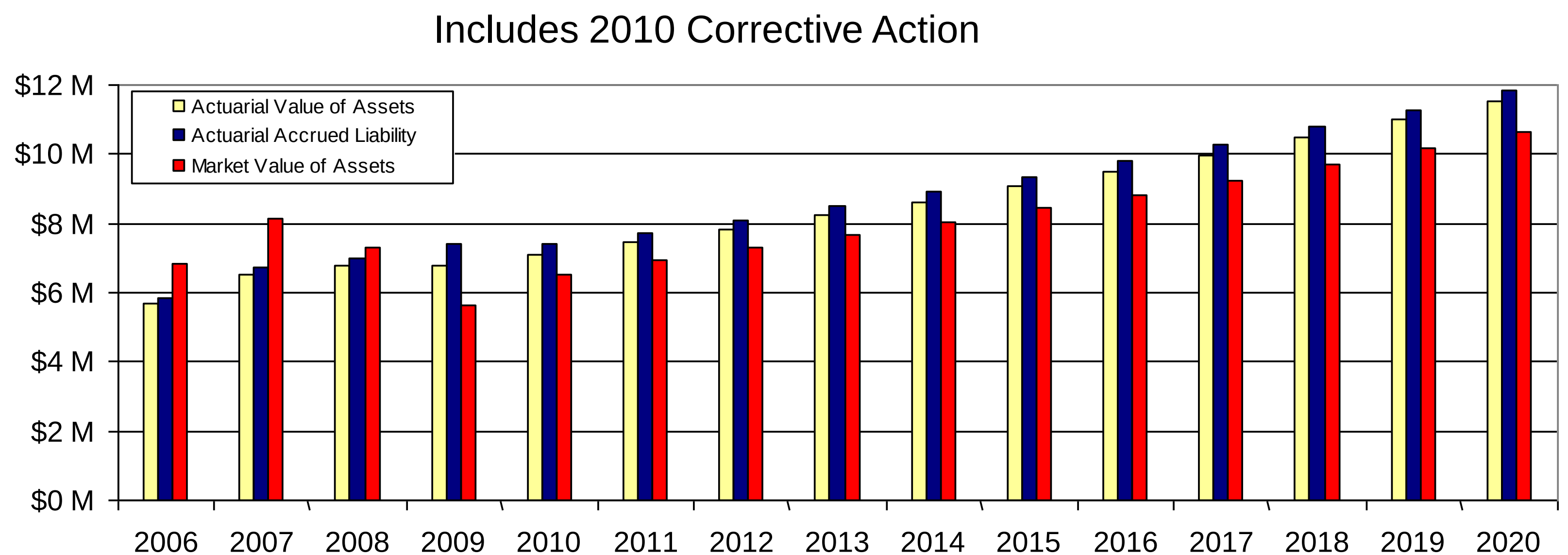
Minimum Annual Investment Return Required to Eliminate Remaining Deficit Over

Includes 2010 Corrective Action

If Investment Return For Year Ending June 30, 2011 is	Five Years	Ten Years	Twenty Years	Thirty Years
5.00%	10.4%	9.1%	8.5%	8.3%
7.75%	9.8%	8.8%	8.3%	8.2%
10.00%	9.3%	8.6%	8.2%	8.1%
12.50%	8.8%	8.3%	8.1%	8.0%

SDRS Funded Status Projection

One Year at 10.00%, Then 7.75% Annual Return on Market Value of Assets



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Market Value Funded Ratio	117%	121%	105%	76%	88%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Actuarial Value Funded Ratio	97%	97%	97%	92%	96%	96%	97%	97%	97%	97%	97%	97%	97%	97%	97%
MVA to AVA Ratio	121%	125%	108%	83%	91%	93%	93%	93%	93%	93%	93%	93%	93%	92%	92%
% Actuarially Required Contribution Made	100%	100%	100%	91%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

South Dakota Retirement System Conclusions

- While System investment experience was very unfavorable for fiscal year 2009, it was very good for 2010
- System liability experience was slightly favorable for fiscal year ended 2010
- SDRS funded status compares very favorably with similar systems
- Board legislation and outstanding investment performance in 2010 has brought SDRS back into actuarial balance and near the long-term funding goals target of the Board of Trustees

South Dakota Retirement System Current and Future Issues

- Consideration of long-term benefit goals and fiscally sustainable benefit designs will be the focus for the coming years.
- Monitor and evaluate current economic, demographic and actuarial assumptions
- Accurately communicate current and projected funded status of SDRS and maintain distinction from multitude of lesser funded public plans
- Confirm recent investment performance and model anticipated asset and liability experience
- Closely monitor plan funded status and SDCL 3-12-122 thresholds

Cement Plant Retirement Plan – Benefit Structure

- Dacotah Cement Plant was sold to a private entity on March 16, 2001.
- CPRP was "Frozen" as of date of sale, meaning
  - Plan was closed to new entrants,
  - All members were 100% vested, and
  - Benefit accruals were frozen (i.e. Earnings, Credited Service, Primary Social Security benefits remain unchanged as of March 16, 2001).
- In addition
  - Continuing service with the successor employer would count toward achieving Special Early and Early Retirement eligibilities,
  - Disability benefits ceased, and
  - Optional Spouse benefit employee contributions were no longer required, but coverage continued to those in the program as of March 16,2001.
- No benefit improvements in CPRP since March 16, 2001.

Cement Plant Retirement Plan – SB 166

- The 2010 South Dakota Legislature enacted SB 166 which
  - Transferred responsibility for the administration of retirement benefits to SDRS
  - Specified that CPRP benefit payments and expenses be paid from the CPRP trust fund
  - Prohibited the transfer of SDRS funds to pay CPRP benefits or expenses
  - Required the liquidation of the Cement Plant Commission's remaining property and disbursement of the proceeds to:
    - Pay the commission's liabilities
    - Transfer $350,000 to the Bureau of Personnel for future workmen's compensation claims
    - SDRS to fund former employees' benefits based on the June 30, 2010 Actuarial Review

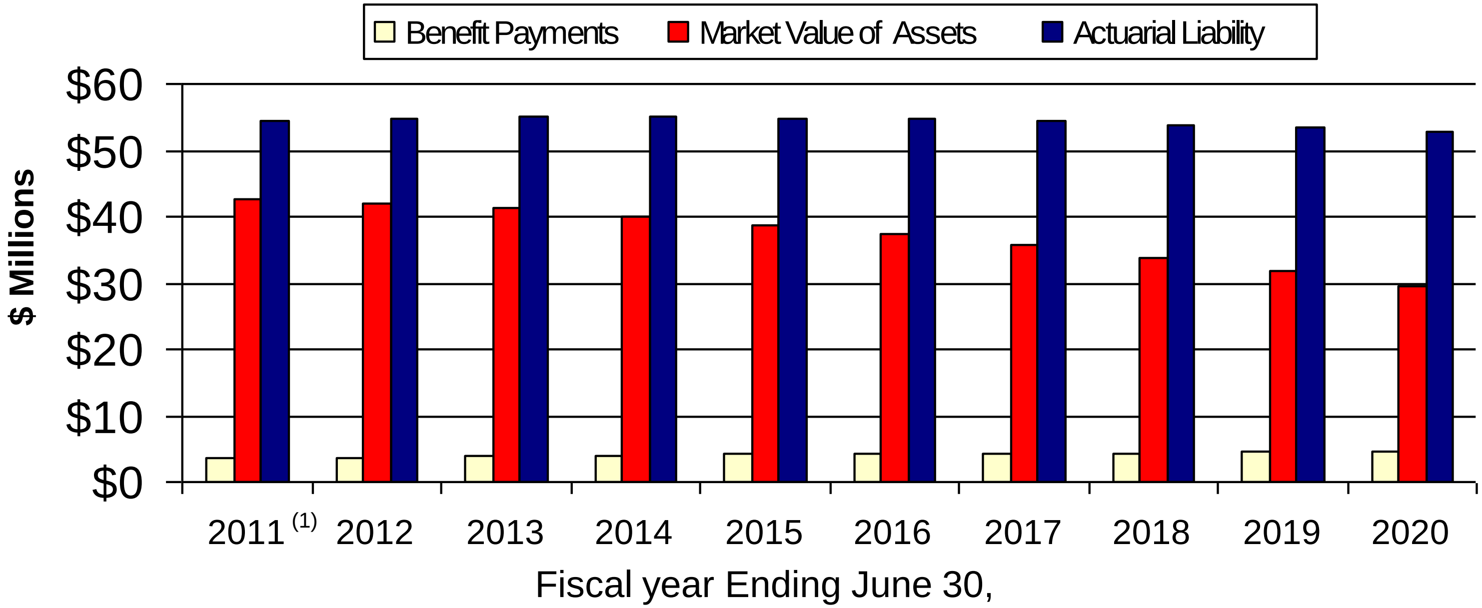
Cement Plant Retirement Plan – Highlights of 2008 and 2010 Actuarial Valuations

	2008	2010
Actuarial Accrued Liability		
• Active	$ 14,033,033	$ 8,750,813
• Members with Deferred Benefits	2,113,233	1,917,945
• Members Receiving Benefits	36,731,646	43,013,852
• Expense Load	473,713	438,057
Total	$ 53,350,595	$ 54,120,667
Market Value of Assets	47,269,470	39,131,563
Unfunded Actuarial Accrued Liability	$ 6,081,125	$ 14,989,104
Funded Ratio	88.6%	72.3%
Annual Required Contribution(1)	$ 564,175	$ 1,065,042

(1) Based on an amortization of Unfunded Actuarial Accrued Liability over 20 years from July 1, 2008 and consideration of the $4.0 million of contributions in September 2010.

Cement Plant Retirement Plan - Funded Status Projection

7.75% Annual Return on Market Value of Assets



Projected Funded Status	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	78.2%	76.7%	74.9%	73.0%	70.8%	68.4%	65.8%	62.8%	59.6%	55.9%

(1) Includes additional contribution of approximately $4 million received in fiscal 2011.

CPRP – July 1, 2010 Actuarial Valuation Conclusions

- CPRP Funded Ratio is 72.3% as of July 1, 2010, down from 88.6% as of July 1, 2008.
- Unfunded Actuarial Accrued Liability is approximately $15 million, up from $6 million at July 1, 2008.
- These figures do not include contributions received in fiscal 2011 totaling approximately $4 million.
- Relatively large, negative cash flow limits opportunity for excess earnings to fill funding gap.
- Without additional contributions, funded ratio is expected to deteriorate to approximately 56% and Unfunded Actuarial Liability is expected to grow to $23 million by 2020.
- Annual Required Contribution is $1.1 million for 2010, based on funding over 20 years from July 1, 2008 and additional contributions.