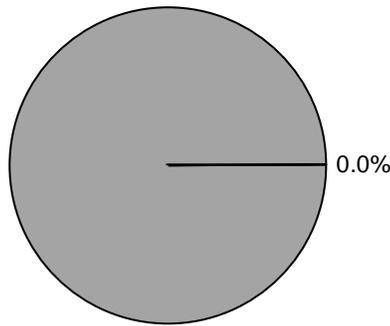


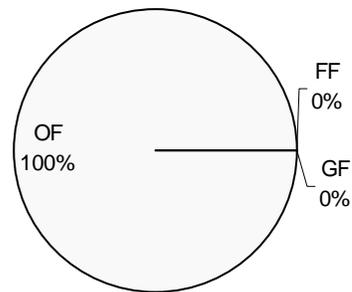
FY2007 Budget Briefing

South Dakota Retirement System

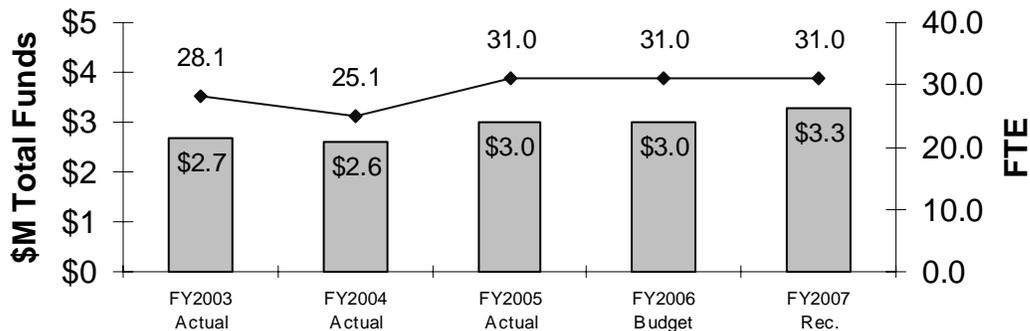
Agency's Share of Total Recommended General Fund Budget FY2007



Agency's Funding Source Split FY2007 Recommended Budget



Budget History



Key Responsibilities

- To plan, implement, and administer income replacement programs that give all SDRS members and their families the opportunity to achieve financial security at retirement, death, or disability by providing an outstanding, appropriate, and equitable level of benefits.

Key Personnel

- Rob Wylie, System Administrator
- Jane Roberts, Finance Officer
- Elmer Brinkman, SD Retirement System Board of Trustees Chair

Department Total

The South Dakota Retirement System (SDRS) is funded from the SDRS Trust Fund pool. SDRS is allowed to expend up to 3% of annual contributions for administration pursuant to SDCL 3-12-61. For FY 2007, the Governor recommends an increase of \$216,996 from other funds and no change in FTEs. The administrative costs of the fund are approximately 1.5% of the contributions; SDCL 3-12-61 requires that rate to be less than 3%.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	1,440,742	1,605,165	1,605,165	1,670,161	64,996	4.0%
Travel	55,478	60,152	60,152	60,152	-	0.0%
Contractual Services	1,075,924	1,098,282	1,207,282	1,207,282	109,000	9.9%
Supplies and Materials	214,963	265,000	265,000	265,000	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	45,698	41,500	84,500	84,500	43,000	103.6%
Other	-	-	-	-	-	0.0%
TOTAL	2,832,805	3,070,099	3,222,099	3,287,095	216,996	7.1%
Funding Sources:						
General Funds	-	-	-	-	-	0.0%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	2,832,806	3,070,099	3,222,099	3,287,095	216,996	7.1%
TOTAL	2,832,806	3,070,099	3,222,099	3,287,095	216,996	7.1%
FTE	29.2	31.0	31.0	31.0	-	0.0%

The Governor's recommendation throughout this analysis also includes funding for Performance And Compensation Equity (PACE) movement of 2.5% for those employees who are paid under the job-worth of their pay range, a 3% across-the-board increase for all permanent employees, and an increase in the employer paid portion of the state health insurance plan. The recommended amounts for each segment of the compensation package are as follows:

	General Funds	Federal Funds	Other Funds	Total
2.5% PACE Movement	0	0	12,950	12,950
3% Across-the-Board	0	0	42,633	42,633
Health Insurance	0	0	9,413	9,413
Total	-	-	64,996	64,996

Major Expansion and Reduction

Budget Item	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. Quadrennial Review	-	75,000	-	-	75,000	-
B. Document Management System	-	43,000	-	-	43,000	-
C. Benefit Administration Analysis	-	30,000	-	-	30,000	-
D. 1-800 Number Services	-	4,000	-	-	4,000	-
E. Governor's Salary Policy	-			-	64,996	-
Total	-	152,000	-	-	216,996	-

- A. SDCL 3-12-118 requires an independent review of investment performance results at least every four years. The agency is requesting \$75,000 for the review and an asset/liability modeling study that will project the long-term impact on SDRS funding of various asset and liability growth scenarios. The Governor concurs.
- B. The agency requests \$43,000 from other funds for the purchase of a FileDirector system, which is a professional document management system. The system will manage 66,000 active, inactive, and retired members' records. The Governor concurs.
- C. The agency requests funding for a benchmark analysis of the defined benefit administration to improve member services. The Governor concurs.
- D. The agency requests \$4,000 to cover the costs of a 1-800 number. The additional funding will enhance customer service. The Governor concurs.
- E. Governor's Salary Policy: 3% COLA; 2.5% Movement to Midpoint; and 6.5% Increase for Insurance

South Dakota Retirement System – Administration Division

The mission of the South Dakota Retirement System is to plan, implement, and administer income replacement programs that give all SDRS members and their families the opportunity to achieve financial security at retirement, death, or disability by providing an outstanding, appropriate, and equitable level of benefits.

The total recommended budget for the Retirement System includes an expansion of \$216,996 from other funds.

Item	Actual FY2005	Approved FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	1,440,742	1,605,165	1,605,165	1,670,161	64,996	4.0%
Travel	52,978	57,402	57,402	57,402	-	0.0%
Contractual Services	1,035,924	1,056,282	1,165,282	1,165,282	109,000	10.3%
Supplies and Materials	200,963	251,000	251,000	251,000	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	45,698	41,500	84,500	84,500	43,000	103.6%
Other	-	-	-	-	-	0.0%
TOTAL	2,776,305	3,011,349	3,163,349	3,228,345	216,996	7.2%
Funding Sources:						
General Funds	-	-	-	-	-	0.0%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	2,776,306	3,011,349	3,163,349	3,228,345	216,996	7.2%
TOTAL	2,776,306	3,011,349	3,163,349	3,228,345	216,996	7.2%
FTE	29.2	31.0	31.0	31.0	-	0.0%

Revenues

Other Fund Revenue Source

	Actual FY2004	Actual FY2005	FY2006 Estm.	FY2007 Estm.	% Change From FY2004
Contributions ¹	\$179,510,046	\$166,633,597	\$197,910,000	\$207,800,000	15.8%
Investment Income ²	776,890,949	727,046,373	476,472,917	513,350,000	(33.9%)
Benefits Paid ³	(198,454,410)	(217,559,207)	(240,000,000)	(264,000,000)	33.0%
Refunds Paid ⁴	(21,414,639)	(20,840,323)	(22,423,000)	(23,000,000)	7.4%
Total	\$736,531,946	\$655,280,440	\$411,959,917	\$434,150,000	(41.1%)

¹Contributions include both member and employer contributions. Member contributions include normal contributions, service purchases, redeposits, trustee to trustee transfers, and optional spouse coverage premiums. Employer contributions include matching employer contributions and employer deficiency payments.

²Investment income includes interest, dividends, real estate income, gains and losses on investments, proration interest, and any other income generated from investment operations. Investment related expenses are also deducted. Actual investment performance in FY 2005 was +13.34%. The assumed rate of return for FY2006 is 7.75% and 7.75% for FY2007.

³Benefits Paid include retirement, survivor, and disability benefits paid during the fiscal year.

⁴Refunds Paid include all refunds paid to terminated members.

Budget Notes

- A.** The agency requests \$30,000 for a benchmark analysis of the defined benefit administration to improve member services. The Governor concurs.
- B.** SDRS requests funding for a quadrennial review. South Dakota Codified Law 3-12-118 requires an independent review of investment performance results at least every four years. The agency is requesting \$75,000 for the review as well as an asset/liability modeling study that will project the long-term impact on SDRS funding of various asset and liability growth scenarios. The Governor concurs.
- C.** The agency requests \$4,000 to cover the costs of a 1-800 number. With the increase in the number of potential retirees, the 1-800 number will enhance customer service. The Governor concurs.
- D.** The agency requests \$43,000 for the purchase of a FileDirector system, which is a professional document management system. The system will manage 66,000 active, inactive, and retired members' records. FileDirector is used by several state agencies: Agriculture, Social Services, Revenue, Secretary of State, Attorney General, Education and Labor. This is a state contract item and BIT manages the central server that controls the system.
- E.** While the FileDirector system will manage the 66,000 active, inactive, and retired members' records, it will also make it possible to maintain a complete record of SDRS information in case of emergency. Member financial data is already maintained on the SDRS retirement administration system but the new system will provide a digital back-up. In addition, the new system will allow more on-line information.

Selected Performance Indicators

	Actual	Actual	Estimated	Estimated
	FY 2004	FY 2005	FY 2006	FY 2007
Budget Compared to Assets ¹	0.049%	0.049%	0.047%	0.045%
Budget Compared to Benefits ²	1.4%	1.3%	1.3%	1.2%
Budget Compared to Contributions	1.7%	1.8%	1.5%	1.5%
Members Per FTEs	2,325	2,147	2,170	2,206
Turnover Rate for FTEs- Managerial	62.5%	0.0%	12.5%	0.0%
Turnover Rate for FTEs - Nonmanagerial	5.0%	21.7%	4.3%	4.3%

¹Budget Compared to Assets - SDRS Budget compared to total SDRS assets. This is the measure of performance typically used for operations of large pools of assets.

²Budget Compared to Benefits - SDRS Budget compared to the retirement, disability, and survivor benefits paid.

Deferred Compensation

The mission of the Deferred Compensation program is to plan, implement, and administer income replacement programs that give all SDRS members and their families the opportunity to achieve financial security at retirement, death, or disability by providing an outstanding, appropriate, and equitable level of benefits.

The total recommended budget for this program remains unchanged from the previous year.

Item	Actual FY2005	Budgeted FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2005
Personal Services	-	-	-	-	-	0.0%
Travel	2,500	2,750	2,750	2,750	-	0.0%
Contractual Services	40,000	40,000	40,000	40,000	-	0.0%
Supplies and Materials	14,000	14,000	14,000	14,000	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	-	-	-	-	-	0.0%
Other	-	-	-	-	-	0.0%
TOTAL	56,500	56,750	56,750	56,750	-	0.0%
Funding Sources:						
General Funds	-	-	-	-	-	0.0%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	56,500	56,750	56,750	56,750	-	0.0%
TOTAL	56,500	56,750	56,750	56,750	-	0.0%
FTE	-	-	-	-	-	0.0%

Revenues

Other Fund Revenue Source

	Actual FY2004	Actual FY2005	FY2006 Estm.	FY2007 Estm.	% Change From FY2004
Contributions ¹	\$14,758,017	\$9,948,705	\$12,000,000	\$14,000,000	(5.1%)
Earnings ²	1,994,102	2,445,700	3,000,000	3,500,000	75.5%
Withdrawals ³	(11,552,078)	(6,000,000)	(6,000,000)	(7,000,000)	(39.4%)
Total	\$5,200,041	\$6,394,405	\$9,000,000	\$10,500,000	101.9%

¹Contributions to the Supplemental Retirement Plan are tax deferred salary reduction payments. The plan is voluntary and designed to supplement retirement benefits from SDRS and Social Security. The contributions are distributed to the investment alternatives available to the plan participants. Earnings on those participant-chosen investments are allocated to participant accounts.

²The earnings on the investment alternatives are allocated to participant accounts daily. While the capital markets performed well during FY1996, FY1997, FY1998, FY1999, and FY2000, earnings were difficult with negative returns in FY2002 and FY2003. Returns have been favorable since then.

³Withdrawals include benefit payments and all other disbursements.

Selected Performance Indicators

	Actual FY2004	Actual FY2005	Estimated FY2006	Estimated FY2007
Participants	4,165	4,358	4,400	4,500
Total Assets	\$84,631,344	\$95,715,806	\$105,000,000	\$115,500,000

Special Pay Plan

The mission of the Special Pay Plan program is to plan, implement, and administer income replacement programs that give all SDRS members and their families the opportunity to achieve financial security at retirement, death, or disability by providing an outstanding, appropriate, and equitable level of benefits.

The total recommended budget for this program remains unchanged from the previous year.

Item	Actual FY2005	Budgeted FY2006	Agency Req. FY2007	Gov. Rec. FY2007	Change from FY2006	% Change from FY2006
Personal Services	-	-	-	-	-	0.0%
Travel	-	-	-	-	-	0.0%
Contractual Services	-	2,000	2,000	2,000	-	0.0%
Supplies and Materials	-	-	-	-	-	0.0%
Grants and Subsidies	-	-	-	-	-	0.0%
Capital Outlay	-	-	-	-	-	0.0%
Other	-	-	-	-	-	0.0%
TOTAL	-	2,000	2,000	2,000	-	0.0%
Funding Sources:						
General Funds	-	-	-	-	-	0.0%
Federal Funds	-	-	-	-	-	0.0%
Other Funds	-	2,000	2,000	2,000	-	0.0%
TOTAL	-	2,000	2,000	2,000	-	0.0%
FTE	-	-	-	-	-	0.0%

Revenues

Other Fund Revenue Source

	<u>Actual FY2004</u>	<u>Actual FY2005</u>	<u>FY2006 Estm.</u>	<u>FY2007 Estm.</u>	<u>% Change From FY2004</u>
Contributions	\$0	\$3,808,010	\$5,000,000	\$6,000,000	100.0%
Earnings	0	22,057	50,000	60,000	100.0%
Withdrawals	0	(722,205)	(1,000,000)	(1,200,000)	100.0%
Total	\$0	\$3,107,862	\$4,050,000	\$4,860,000	100.0%

Budget Notes

A. The Special Pay Plan was implemented this year to address the high taxes on termination pay (annual leave, sick leave, contract buyouts, retirement incentives, and all other lump-sum payments). The lump-sum payouts were paid directly to members and were subject to Social Security taxes, SDRS contributions, and federal income taxes.

The Special Pay Plan will significantly increase the value of termination pay by eliminating or deferring taxes and contributions. For example, a member receiving \$10,000 in termination pay previously paid over \$2,500 in taxes and contributions. Under the Special Pay Plan there will be no deductions. This permits the full amount of the termination pay to be made to the plan. (Federal income taxes would be paid upon benefit payments from the plan.)

Class A members and their employers will each save 13.65% of the termination pay because of the elimination of Social Security taxes (7.65%) and SDRS contributions (6%). Class B members and their employers will save 15.65% (7.65% in contributions to Social Security plus 8% for SDRS contributions) of the termination pay. In addition, members will defer the payment of federal income taxes until they make withdrawals from the Special Pay Plan.

Selected Performance Indicators

	Actual FY2004	Actual FY2005	Estimated FY2006	Estimated FY2007
Participants	0	200	300	400
Total Assets	\$0	\$3,107,855	\$4,000,000	\$5,000,000

Other Departmental Issues

A. Interim Appropriation Actions

No interim appropriation actions were taken.

B. No Audit Findings

C. No Agency Specific Questions

D. FY2005 Reversions

	SDRS	Deferred Compensation	Special Pay Plan	Total
Personal Services	\$ 119,762		NA	\$ 119,762
Operating Expenditures	\$ 45,275	\$ -	NA	\$ 45,275
Total	\$ 165,036	\$ -	NA	\$ 165,036
Reverted % of Total Fund Budget	5.6%	0.0%	NA	5.6%