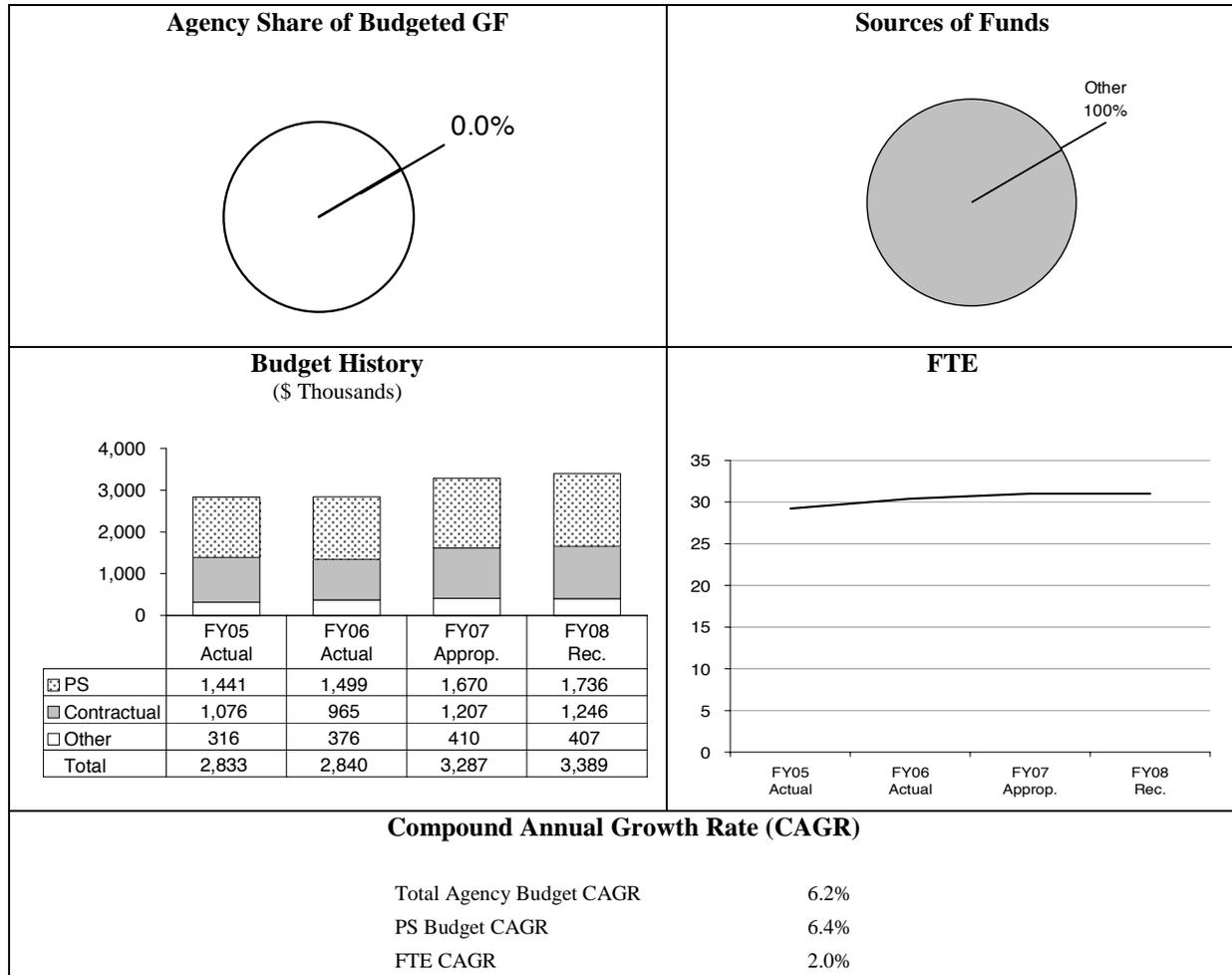


FY2008 Budget Briefing

South Dakota Retirement System



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 administrative expenses pursuant to SDCL 3-12-61. For FY08, the Governor recommends an increase of \$102,393 in other fund expenditure authority and no change in FTEs. The administrative costs of the fund are approximately 1.9% of the contributions.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	1,498,941	1,670,161	1,670,161	1,736,324	66,163	4.0%
Travel	68,071	60,152	72,182	72,182	12,030	20.0%
Contractual Services	964,823	1,207,282	1,245,682	1,245,682	38,400	3.2%
Supplies & Materials	227,925	265,000	293,800	293,800	28,800	10.9%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	80,033	84,500	41,500	41,500	(43,000)	(50.9%)
Other	0	0	0	0	-	0.0%
Total	2,839,793	3,287,095	3,323,325	3,389,488	102,393	3.1%
Funding Types						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	2,839,794	3,287,095	3,323,325	3,389,488	102,393	3.1%
Total	2,839,794	3,287,095	3,323,325	3,389,488	102,393	3.1%
FTE	30.4	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	14,466	14,466
3% Across-the-Board	0	0	45,176	45,176
Health Insurance	0	0	6,521	6,521
Total	-	-	66,163	66,163

Major Expansion and Reduction

Budget Item	Agency Request			Governor's Recommendation		
	State General Fund	All Funds	FTE	State General Fund	All Funds	FTE
A. Inflationary Increases in Operating Expenses	-	79,230	-	-	79,230	-
B. Decrease in Capital Assets	-	(43,000)	-	-	(43,000)	-
C. Governor's Salary Policy				-	66,163	-
Total	-	36,230	-	-	102,393	-

- A. The agency requests \$79,230 in other fund expenditure authority to cover inflationary increases in the operating expense budget. The Governor concurs.
- B. The Legislature appropriated \$43,000 in other funds for the purchase of a FileDirector system last year. The purchase was made and the agency no longer needs the authority. The Governor concurs.
- C. Governor's Salary Policy: 3% COLA; 2.5% Movement to Midpoint; and Health Insurance increase

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 \$98,663 from other funds.

Item	Actual FY06	Budgeted FY07	Agency Req. FY08	Gov Rec. FY08	Inc/Dec FY08	% Change From FY07
Personal Services	1,498,941	1,670,161	1,670,161	1,736,324	66,163	4.0%
Travel	65,321	57,402	68,882	68,882	11,480	20.0%
Contractual Services	922,823	1,165,282	1,202,302	1,202,302	37,020	3.2%
Supplies & Materials	213,925	251,000	278,000	278,000	27,000	10.8%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	80,033	84,500	41,500	41,500	(43,000)	(50.9%)
Other	0	0	0	0	-	0.0%
Total	2,781,043	3,228,345	3,260,845	3,327,008	98,663	3.1%

Funding Types

General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	2,781,044	3,228,345	3,260,845	3,327,008	98,663	3.1%
Total	2,781,044	3,228,345	3,260,845	3,327,008	98,663	3.1%

FTE	30.4	31.0	31.0	31.0	-	0.0%
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Revenues

	FY05	FY06		FY07			FY08	
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Contributions	166,633,597	190,000,000	166,064,870	(23,935,130)	207,800,000	171,000,000	(36,800,000)	176,000,000
Investment Income	727,046,373	432,000,000	844,942,559	412,942,559	513,350,000	512,492,675	(857,325)	550,929,626
Benefits Paid	(217,559,207)	(236,000,000)	(235,611,469)	388,531	(364,000,000)	(264,000,000)	100,000,000	(290,000,000)
Refunds Paid	(20,840,323)	(23,000,000)	(25,086,526)	(2,086,526)	(23,000,000)	(25,944,000)	(2,944,000)	(26,460,000)
Total	655,280,440	363,000,000	750,309,434	387,309,434	334,150,000	393,548,675	59,398,675	410,469,626

Contributions 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.

Investment 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 FY 2006 is 7.75% and 7.75% for FY 2007.

Benefits Paid include retirement, survivor and disability benefits paid during the fiscal year. Refunds Paid include all refunds paid to terminated members.

Budget Notes

- A. The agency requests \$75,500 for inflationary increases in operating expenses. The Governor concurs.
- B. SDRS is requesting a decrease of \$43,000 in capital assets due to the FY07 purchase of the File Director computer imaging system.
- C. In the FY07 budget, the Legislature approved an increase of \$75,000 for a statutorily required quadrennial investment review. Due to the more stringent accounting standards and the growth and size of the SDRS portfolio, the Board of Trustees feel it is time to do the investment review on an on-going basis. . . not on a quadrennial basis.

Selected Performance Indicators

	FY05	FY06			FY07			FY08
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Budget to Assets	0.049%	0.055%	0.044%	-0.011%	0.045%	0.044%	-0.001%	0.041%
Budget to Benefits	1.300%	1.380%	1.260%	-0.120%	1.118%	1.220%	0.102%	1.120%
Budget to Contributions	1.800%	1.600%	1.500%	-0.100%	1.500%	1.900%	0.400%	1.900%
Members Per FTEs	2,147	2,118	2,212	94	2,206	2,229	23	2,252
Turnover Rate for FTEs Managerial	0.000%		25.000%		0.000%	0.000%		0.000%
Turnover Rate for FTEs Nonmanagerial	21.700%		17.400%		4.300%	4.300%		4.300%

Budget 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.

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

Budget Compared to Contributions - Performance indicator defined in law and limited to 3.0% of contributions.

Members Per FTEs - Measure of work load per SDRS FTE. In fiscal year 2006 there were 2,212 members for each SDRS employee.

Turnover Rate for FTE's - Managerial Measures the turnover of managerial positions within the fiscal year.

Turnover Rate for FTE's - Nonmanagerial Measures the turnover of non-managerial positions within the fiscal year.

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	Budgeted	Agency Req.	Gov Rec.	Inc/Dec	% Change
	FY06	FY07	FY08	FY08	FY08	From FY07
Personal Services	0	0	0	0	-	0.0%
Travel	2,750	2,750	3,300	3,300	550	20.0%
Contractual Services	40,000	40,000	41,042	41,042	1,042	2.6%
Supplies & Materials	14,000	14,000	15,800	15,800	1,800	12.9%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	56,750	56,750	60,142	60,142	3,392	6.0%
Funding Types						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	56,750	56,750	60,142	60,142	3,392	6.0%
Total	56,750	56,750	60,142	60,142	3,392	6.0%
FTE	0.0	0.0	0.0	0.0	-	0.0%

Budget Notes

A. The agency requests \$3,392 for inflationary increases in operating expenses. The Governor concurs.

Revenues

	FY05	FY06			FY07			FY08
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Earnings	7,237,344	3,400,000	8,148,149	4,748,149	3,500,000	8,700,000	5,200,000	9,300,000
Contributions	10,032,713	9,500,000	8,690,815	(809,185)	14,000,000	9,000,000	(5,000,000)	9,500,000
Withdrawals	(6,083,255)	(6,000,000)	(7,214,624)	(1,214,624)	(7,000,000)	(8,200,000)	(1,200,000)	(9,400,000)
Total	11,186,802	6,900,000	9,624,340	2,724,340	10,500,000	9,500,000	(1,000,000)	9,400,000

Contributions 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 plan participants. Earnings on those participant-chosen investments are allocated to participant accounts. The earnings on the investment alternatives are allocated to participant accounts daily. Withdrawals include benefit payments and all other disbursements.

Selected Performance Indicators

	FY05	FY06			FY07			FY08
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Participants	4,158	4,250	4,118	(132)	4,500	4,282	(218)	4,453
Total Assets	95,862,844	86,000,000	104,685,479	18,685,479	115,500,000	116,772,275	1,272,275	124,000,000

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 increased by 16.9% for inflationary increases in operating expenses.

Item	Actual	Budgeted	Agency Req.	Gov Rec.	Inc/Dec	% Change
	FY06	FY07	FY08	FY08	FY08	From FY07
Personal Services	0	0	0	0	-	0.0%
Travel	0	0	0	0	-	0.0%
Contractual Services	2,000	2,000	2,338	2,338	338	16.9%
Supplies & Materials	0	0	0	0	-	0.0%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	0	0	0	0	-	0.0%
Other	0	0	0	0	-	0.0%
Total	2,000	2,000	2,338	2,338	338	16.9%

Funding Types

General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	2,000	2,000	2,338	2,338	338	16.9%
Total	2,000	2,000	2,338	2,338	338	16.9%

FTE 0.0 0.0 0.0 0.0 - 0.0%

Revenues

	FY05	FY06			FY07			FY08
	Actual	Original	Actual	Difference	Original	Revised	Change in	Estimate
		Estimate		Over (Under) Estm.				
Contributions	3,008,010	5,000,000	4,940,894	(59,106)	6,000,000	6,500,000	500,000	8,000,000
Earnings	22,057	4,000,000	173,220	(3,826,780)	60,000	186,000	126,000	200,000
Withdrawals	(722,205)	(3,000,000)	(2,018,344)	981,656	(1,200,000)	(2,600,000)	(1,400,000)	(3,000,000)
Total	2,307,862	6,000,000	3,095,770	(2,904,230)	4,860,000	4,086,000	(774,000)	5,200,000

Contributions to the Special Pay Plan are tax deferred salary reduction payments. These payments are not subject to FICA and are deferred from income tax. When the employer has signed a resolution to join the plan, all employees that are 55 years or older in the month before termination and have termination payouts of \$600 or more are included in the plan. The contributions are distributed to the investment alternatives available to the plan participants. Earnings on those participant-chosen investments are allocated to participant accounts. Withdrawals include benefit payments and all other disbursements.

Selected Performance Indicators

	FY05	FY06			FY07			FY08
	Actual	Original	Actual	Difference	Original	Revised	Change in	Estimate
		Estimate		Over (Under) Estm.				
Participants	200	500	475	(25)	400	675	275	875
Total Assets	3,107,855	3,840,000	6,201,435	2,361,435	5,000,000	8,800,000	3,800,000	11,000,000

Budget Notes

A. The Special Pay Plan was implemented in FY06 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 thus subject to Social Security taxes, SDRS contributions, and federal income taxes.

The Special Pay Plan significantly increased 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 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 save 15.65% (7.65% in contributions to Social Security plus 8% for SDRS contributions). In addition, members defer the payment of federal income taxes until they make withdrawals from the Special Pay Plan.

Other Departmental Issues

A. Interim Appropriation Actions

No interim appropriation actions were taken.

B. No Audit Findings

C. FY06 Reversions

	SDRS	Deferred Compensation	Special Pay Plan	Total
Personal Services	\$ 106,224		NA	\$ 106,224
Operating Expenditures	\$ 124,082	\$ -	NA	\$ 124,082
Total	\$ 230,306	\$ -	NA	\$ 230,306
Reverted % of Total Fund Budget	7.6%	0.0%	NA	7.5%