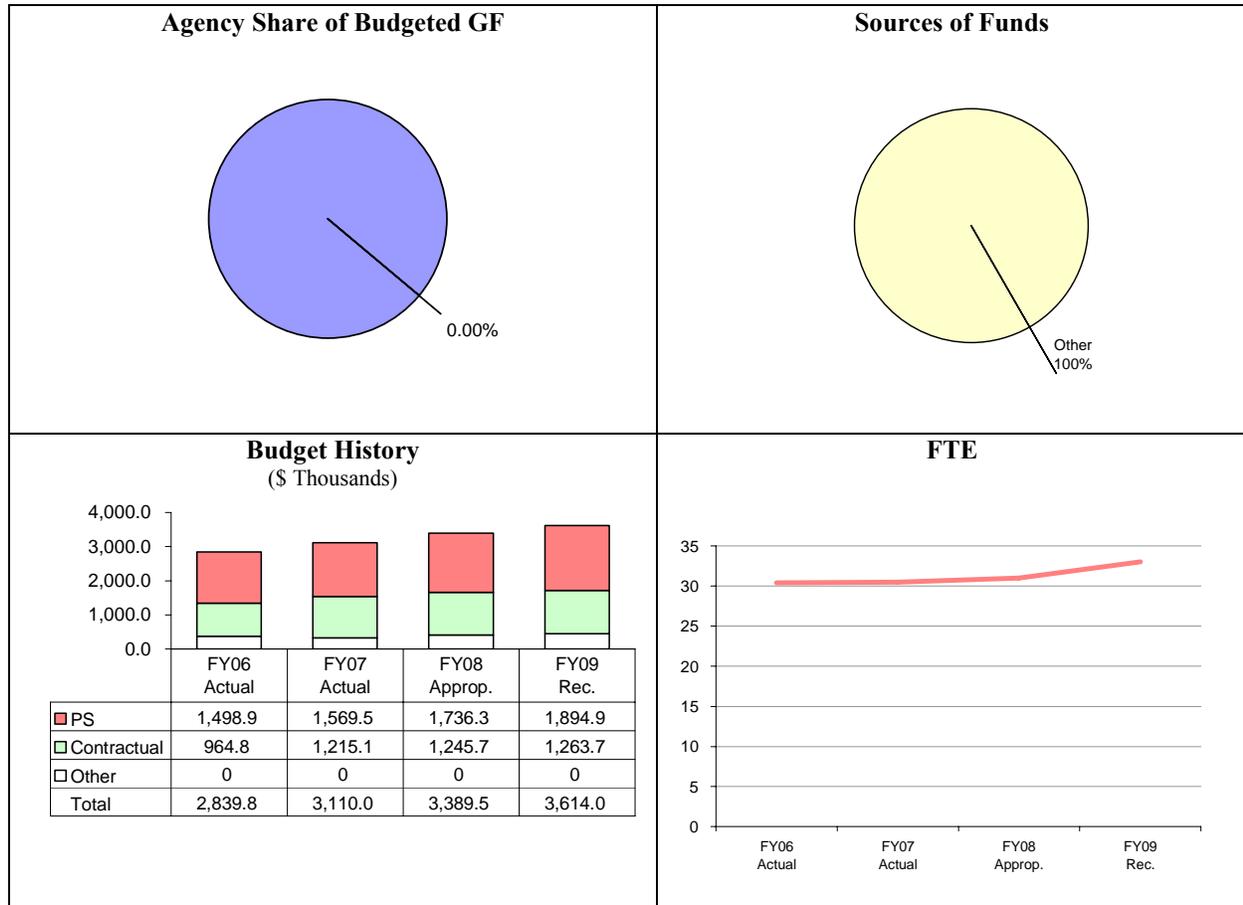


FY2009 Budget Briefing

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 FY09, the Governor recommends an increase of \$224,561 in other fund expenditure authority and an increase of 2.0 FTEs. The administrative costs of the fund are approximately 2.0% of the contributions.

Item	Actual FY07	Budgeted FY08	Agency Req. FY09	Gov Rec. FY09	Inc/Dec FY09	% Change From FY08
Personal Services	1,569,500	1,736,324	1,827,170	1,894,885	158,561	9.1%
Travel	69,829	72,182	72,182	72,182	-	0.0%
Contractual Services	1,215,125	1,245,682	1,263,682	1,263,682	18,000	1.4%
Supplies & Materials	212,065	293,800	293,800	293,800	-	0.0%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	43,511	41,500	89,500	89,500	48,000	115.7%
Other	0	0	0	0	-	0.0%
Total	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
Funding Types						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
Total	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
FTE	30.5	31.0	33.0	33.0	2.0	6.5%

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 2.5% 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	19,202	19,202
2.5% Across-the-Board	0	0	40,936	40,936
Health Insurance	0	0	7,577	7,577
	0	0	67,715	67,715

Major Expansion and Reduction

Budget Item	General Fund	All Funds	FTE	General Fund	All Funds	FTE
A. Pension Benefit Specialists	-	90,846	2.0	-	90,846	2.0
B. Additions for Space	-	18,000	-	-	18,000	-
C. Capital Assets	-	48,000	-	-	48,000	-
D. Governor's Salary Policy	-	-	-	-	67,715	-
Total	-	156,846	2.0	-	224,561	2.0

- A. The Governor recommends 2.0 FTEs and an additional \$90,846 in other fund spending authority to provide essential service to the wave of expected new retirees and administer a new supplemental retirement benefit provision within SDRS. The FTEs will serve as Retirement Planners who work with employers and employees.

The aging of the baby boomers is having a greater impact on SDRS member service needs than originally estimated. Of the 37,311 active SDRS members, 8,500 will be eligible for full retirement benefits within five years.

The new supplemental retirement benefit will allow Supplemental Retirement Plan and Special Pay Plan participants to roll over accumulated funds into SDRS and convert them to additional monthly SDRS lifetime retirement benefits. This benefit is designed to encourage SDRS members to add to their voluntary personal savings.

- B. The Governor recommends an additional \$18,000 in other funds to provide additional space for the 2.0 FTEs and a 1,300 sq. ft. conference room. SDRS currently leases the west wing of the Sahr building and with this recommendation, they will lease half of the east wing as well.
- C. The Governor recommends an additional \$48,000 in other funds for capital assets. The funding is needed to furnish the new board room with audio and video conferencing equipment. The capital assets are also needed for computers and office equipment for the 2 new FTEs.
- D. Governor's Salary Policy: 2.5% COLA; 2.5% Movement to Midpoint; and Health Insurance increase.

South Dakota Retirement System

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 \$224,561 from other funds.

Item	Actual	Budgeted	Agency Req.	Gov Rec.	Inc/Dec	% Change
	FY07	FY08	FY09	FY09	FY09	From FY08
Personal Services	1,569,500	1,736,324	1,827,170	1,894,885	158,561	9.1%
Travel	69,829	72,182	72,182	72,182	-	0.0%
Contractual Services	1,215,125	1,245,682	1,263,682	1,263,682	18,000	1.4%
Supplies & Materials	212,065	293,800	293,800	293,800	-	0.0%
Grants And Subsidies	0	0	0	0	-	0.0%
Capital Outlay	43,511	41,500	89,500	89,500	48,000	115.7%
Other	0	0	0	0	-	0.0%
Total	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
Funding Types						
General	0	0	0	0	-	0.0%
Federal	0	0	0	0	-	0.0%
Other	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
Total	3,110,030	3,389,488	3,546,334	3,614,049	224,561	6.6%
FTE	30.5	31.0	33.0	33.0	2.0	6.5%

Revenues

South Dakota Retirement System

	FY06	FY07			FY08			FY09
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Contributions	166,064,870	207,800,000	172,294,544	(35,505,456)	176,000,000	176,000,000	0	178,000,000
Investment Income	844,942,559	513,350,000	1,426,600,535	913,250,535	550,929,626	550,929,626	0	631,000,000
Benefits Paid	(235,611,469)	(364,000,000)	(253,545,120)	110,454,880	(290,000,000)	(270,000,000)	20,000,000	(283,000,000)
Refunds Paid	(25,086,526)	(23,000,000)	(28,777,398)	(5,777,398)	(26,460,000)	(31,000,000)	(4,540,000)	(33,000,000)
Total	750,309,434	334,150,000	1,316,572,561	982,422,561	410,469,626	425,929,626	15,460,000	493,000,000

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 2007 was +21.39%. 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.

Deferred Compensation

	FY06	FY07		FY08			FY09	
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Earnings	8,148,149	3,500,000	17,902,598	14,402,598	9,300,000	9,300,000	0	9,900,000
Contributions	8,690,815	14,000,000	9,645,117	(4,354,883)	9,500,000	9,500,000	0	9,700,000
Withdrawals	(7,214,624)	(7,000,000)	(8,286,944)	(1,286,944)	(9,400,000)	(9,400,000)	0	(10,700,000)
Total	9,624,340	10,500,000	19,260,771	8,760,771	9,400,000	9,400,000	0	8,900,000

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.

Special Pay Plan

	FY06	FY07		FY08			FY09	
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Contributions	4,940,894	6,000,000	5,322,893	(677,107)	8,000,000	8,000,000	0	6,000,000
Earnings	173,220	60,000	590,812	530,812	200,000	200,000	0	212,000
Withdrawals	(2,018,344)	(1,200,000)	(3,409,416)	(2,209,416)	(3,000,000)	(3,000,000)	0	(3,500,000)
Total	3,095,770	4,860,000	2,504,289	(2,355,711)	5,200,000	5,200,000	0	2,712,000

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.

Budget Notes

- Prior to this year, the South Dakota Retirement System's budget was divided into three sections. One for the administration of the main retirement system, one for the administration of the Supplemental Retirement System, and the third was for the administration of the Special Pay Plan. The FY09 budget request combines the three separate budgets into one.
- The Deferred Compensation program, also referred to as the Supplemental Retirement Program, is a voluntary, tax-deferred retirement plan. It is designed to supplement retirement benefits from SDRS and Social Security. The contributions are distributed to the investment alternatives available through a third-party.
- 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.

Selected Performance Indicators

	FY06	FY07			FY08			FY09
	Actual	Original Estimate	Actual	Difference Over (Under) Estm.	Original Estimate	Revised Estimate	Change in Estimate	Estimate
Budget to Assets	0.044%	0.045%	0.039%	-0.006%	0.041%	0.041%	0.000%	0.041%
Budget to Benefits	1.260%	1.118%	1.248%	0.130%	1.120%	1.120%	0.000%	1.150%
Budget to Contributions	1.500%	1.500%	1.836%	0.336%	1.900%	1.900%	0.000%	2.000%
Members Per FTEs	2,212	2,206	2,259	53	2,252	2,241	(11)	2,345
Turnover Rate for FTEs								
Managerial	25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Turnover Rate for FTEs								
Nonmanagerial	17.4%	4.3%	8.7%	4.4%	4.3%	4.3%	0.0%	4.3%
Deferred Compensation								
Participants	4,118	4,500	4,121	(379)	4,453	4,453	0	4,500
Total Assets	104,685,479	115,500,000	124,006,894	8,506,894	124,000,000	124,000,000	0	136,000,000
Special Pay Plan								
Participants	475	400	538	138	875	875	0	700
Total Assets	6,201,435	5,000,000	11,506,640	6,506,640	11,000,000	11,000,000	0	12,100,000
Supplemental Pension								
Benefit Plan								
Participants								
Total Assets								

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.

Other Departmental Issues

A. Budget Transfers (FY07 and FY08 Year-to-Date)

No interim appropriation actions were taken.

B. No Audit Findings

C. No General Fund Reversions

D. No Letters of Intent

E. No Committee Questions