South Dakota Retirement System

State of the System and Projected Funded Status

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South Dakota Retirement System

State of the SDRS

- As of June 30, 2015, Fair Value Funded Ratio of 104%
- Fully funded status is a Board objective and a significant accomplishment
- System is likely to be slightly less than 100% funded at June 30, 2016 but sound and in balance
- Conservative actuarial assumptions
- Strong overall benefit practices, with a number of above average practices but a lower than average benefit formula multiplier for current members
- Fixed statutory employer and member contributions that currently exceed actuarial requirements and include a margin which will increase the Cushion each year
- Board commitment to manage SDRS within fixed contributions
- Precedent of recommended corrective actions when required

Projected Funded Status as of June 30, 2016

If Net Investment Return for FYE June 30, 2016 is:	Result	Actuarial Value Funded Ratio at June 30, 2016[1]	Fair (Market) Value Funded Ratio (FVFR) at June 30, 2016[1]	Cushion/(Deficit) As of June 30, 2016[1][2]	Risk Management Contribution (RMC) for FYE June 30, 2017[1][3]
7.25%	Assumed Return	100%	104%	$461M	$32M
2.9%	FVFR = 100%	100%	100%	0M	32M
2.5%	Current Est. + 2.5%	100%	99.6%	(44M)	32M
0.0%	Current Estimate	100%	97%	(310M)	32M
(2.5%)	Current Est. - 2.5%	100%	95%	(576M)	32M
(7.2%)	FVA/AVA = 90%	100%	90%	(1,079M)	32M
(14.0%)	AVFR = 100%	100%	83%	(1,799M)	32M
(17.4%)	FVFR = 80%	96%	80%	(1,727M)[4]	2M
	At June 30, 2015	100%	104%	$424M	$31M
	At June 30, 2014	100%	107%	720M	29M

(1) Before consideration of liability gains/losses for year ending June 30, 2016.

(2) The Cushion is the amount by which the Fair (Market) Value of Assets exceeds the Actuarial Value of Assets. The Deficit is the amount by which the Fair (Market) Value of Assets is less than the Actuarial Value of Assets.

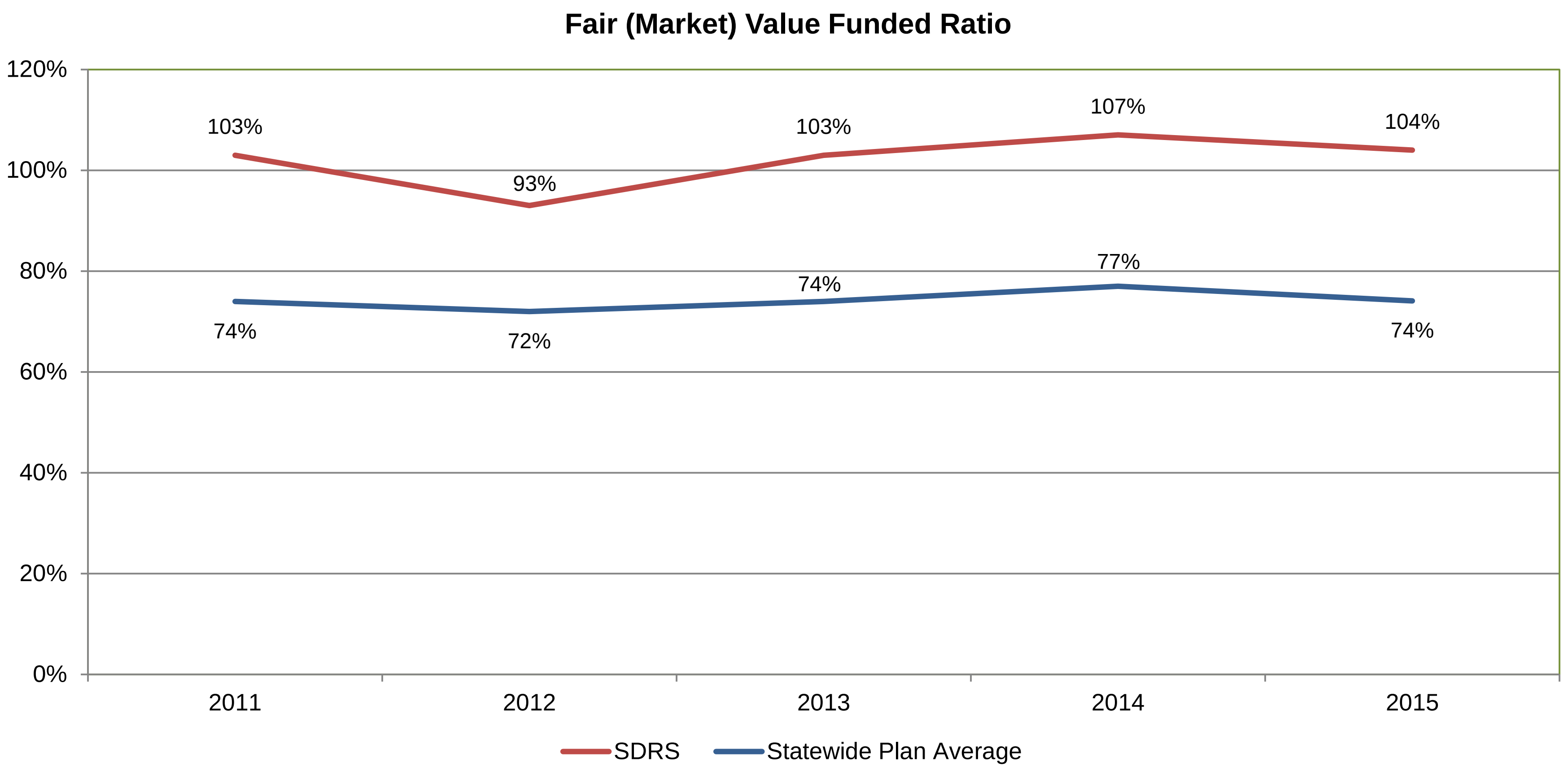
(3) The Risk Management Contribution (RMC) is the statutory contribution above Normal Cost and expenses and will accelerate the growth of the Cushion unless needed due to unfavorable experience. The RMC effectively decreases the required net investment return necessary to maintain the current funded status.

(4) Cushion/(Deficit) is in addition to an Unfunded Actuarial Accrued Liability of $432 million.

Implications of FY 2016 Investment Results

- It is likely SDRS will report a Fair Value Funded Ratio of less than 100%, an Actuarial Value Funded Ratio of 100%, and a Deficit rather than a Cushion at June 30, 2016
- The 100% FVFR goal will not be met unless investment returns are 2.9% or better
  - This goal receives the most attention and is typically the basis used to judge soundness
  - Less than 100% FVFR indicates underfunding on a fair value basis
- The 100% AVFR goal will continue to be met if FY 2016 investment results are better than (14%)
- No unfunded liabilities are reported on this measure because it is based on the expected value of assets, not the fair value
- A Deficit results because the actuarial (expected) value of assets exceeds the fair value, requiring future investment returns better than the assumption to eliminate it

SDRS Funded Status Compared to Other Statewide Plans



Statewide plan average figures from 2011 through 2015 are from 2016 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation.