



# South Dakota Retirement System

**Projected Funded Status as of June 30, 2024**

**December 6, 2023**



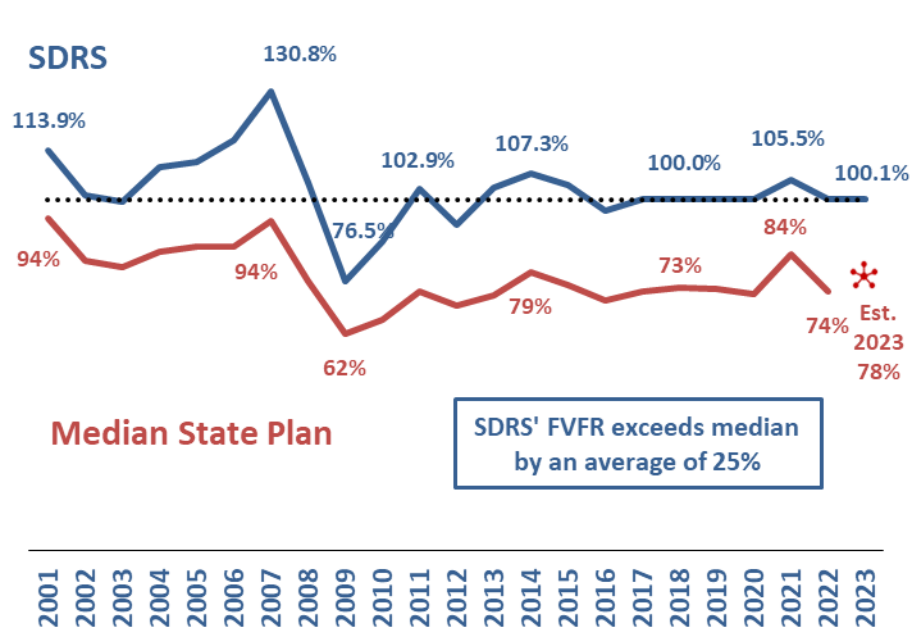
# Funding Basics: $C + I = B + E$

- Member and employer **contribution rates are fixed in statute**
- **COLA automatically varies** with inflation and affordability:
  - COLA equals inflation, up to 3.5% when affordable
  - When not affordable, COLA maximum is reduced to COLA that if paid for lifetimes of all members, keeps SDRS 100% funded
  - COLA can be as low as zero, if necessary
- SDCL 3-12C-228 requires recommendation, including circumstances and timing, to Legislature and Governor for **corrective action** if:
  - Zero COLA results in funded ratio below 100%, or
  - Fixed, statutory contributions do not meet actuarial requirement

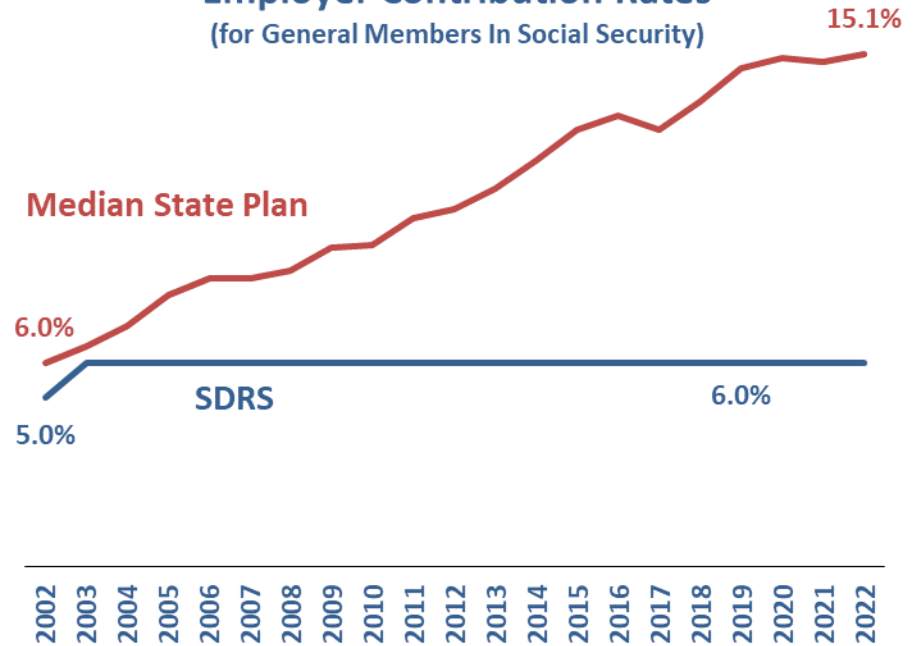


# Employer Contributions and Funded Status Comparisons

Fair Value Funded Ratio



Employer Contribution Rates  
(for General Members In Social Security)



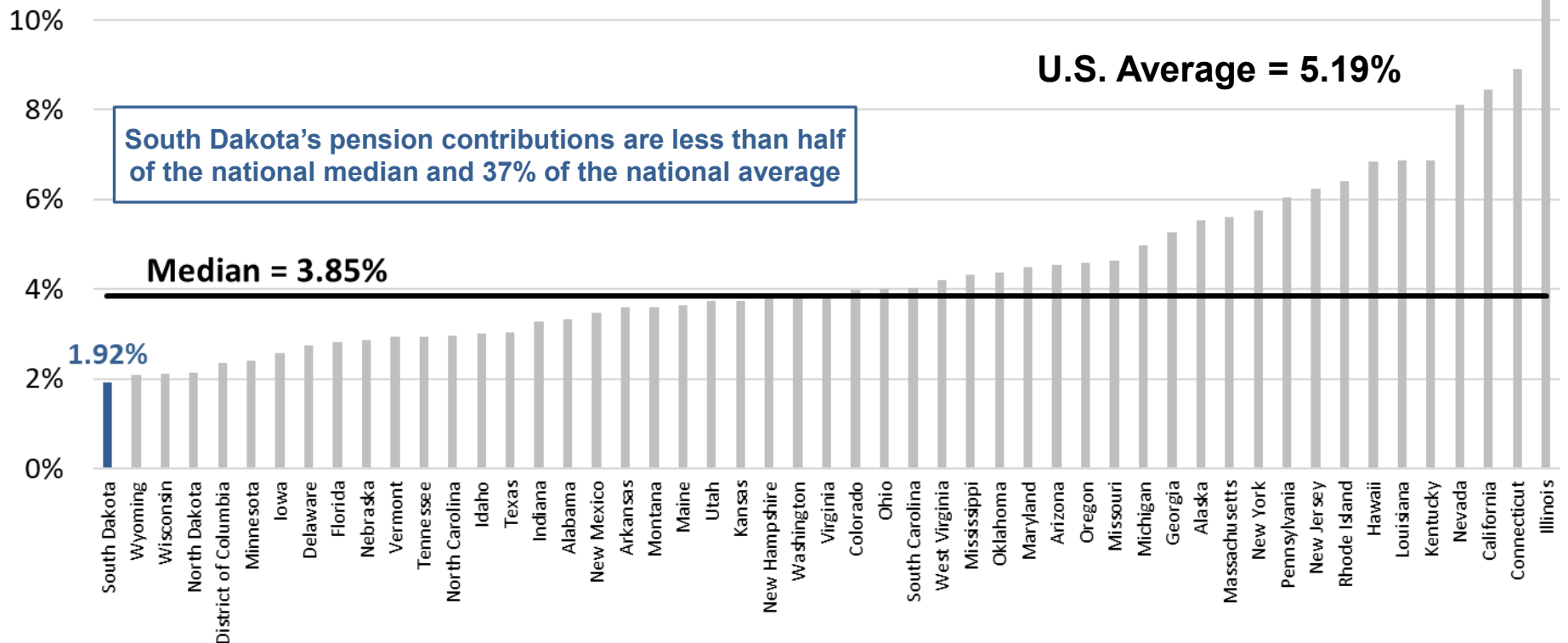
- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 40% of the national median

Median public sector FVFR from Public Plans Database. Employer contribution rates from NASRA Public Fund Survey.



# Government Spending on Pensions

Government Contributions to Pensions as a Percent of All Direct Government Spending, FY 2020 (most recently available)



Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, February 2023



# Competing Objectives

- **Delivering adequate benefits directly competes with remaining fully funded while spending half of the national median on pensions**
- These are increasingly challenging objectives, as retirees live longer and markets provide lower investment returns
- SDRS management efforts to meet these objectives have included:
  - Variable COLA process
  - Foundation members transition to 5-year FAC and pay increase caps
  - Generational design
  - Retire-rehire reform
  - Various other initiatives to avoid or lessen subsidies

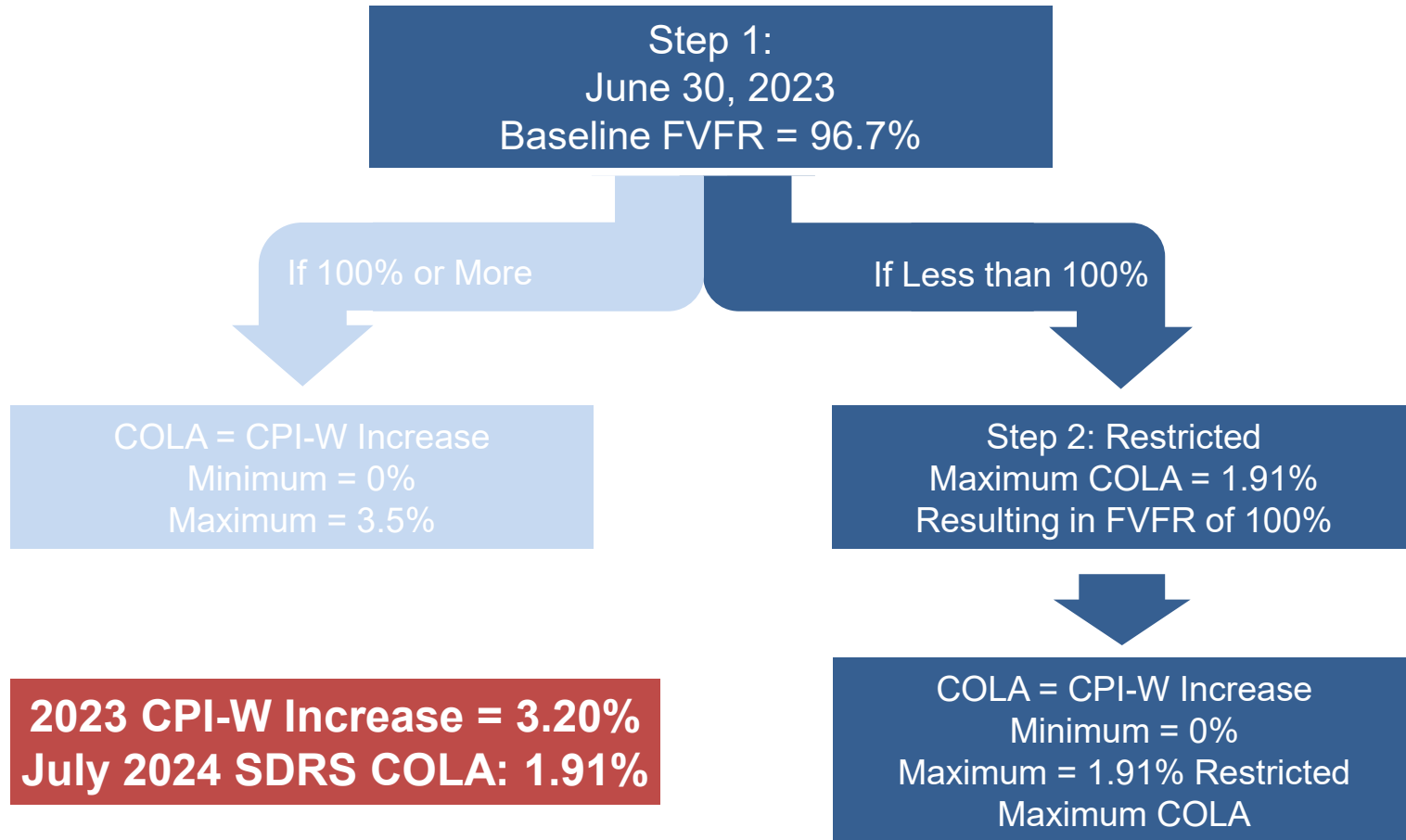


# Competing Objectives

- SDRS resources are not sufficient to provide COLAs that match inflation during periods of very high inflation, like recent periods
- Current SDRS resources are also not sufficient to provide the full COLA range and result in a restricted maximum COLA
- **Proposals that impose additional objectives funded by SDRS' limited resources will detract from the ability to provide adequate benefits funded by the fixed, modest contributions:**
  - Opportunities for employers or members to increase their benefits at the expense of other SDRS members must be opposed
  - Proposed changes to SDRS must be thoroughly evaluated to ensure they do not endanger future benefits, COLAs, or system sustainability
  - Actuarial assumptions must remain realistic

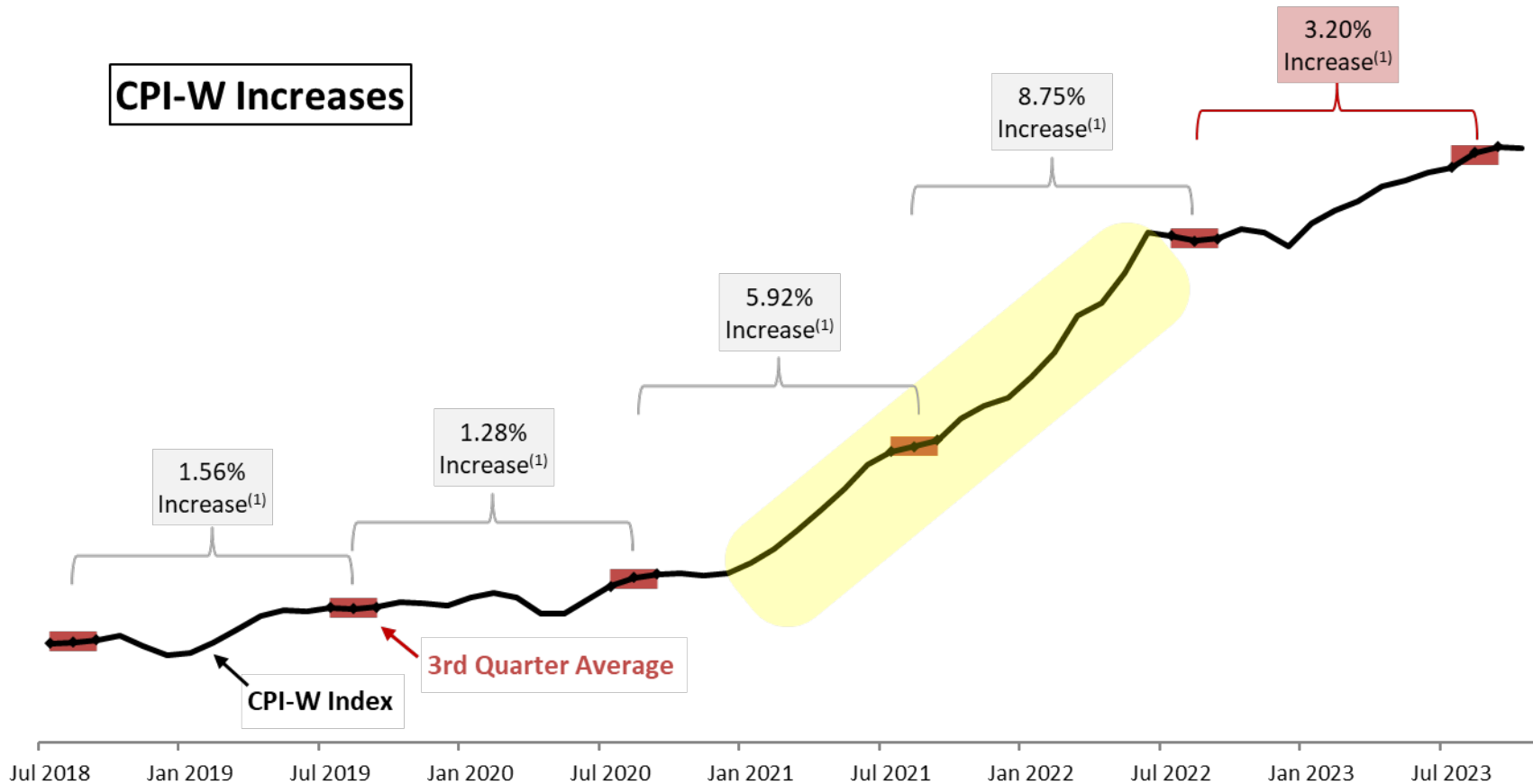


# July 2024 COLA Calculation





# Inflation Measurement for Social Security and SDRS COLAs



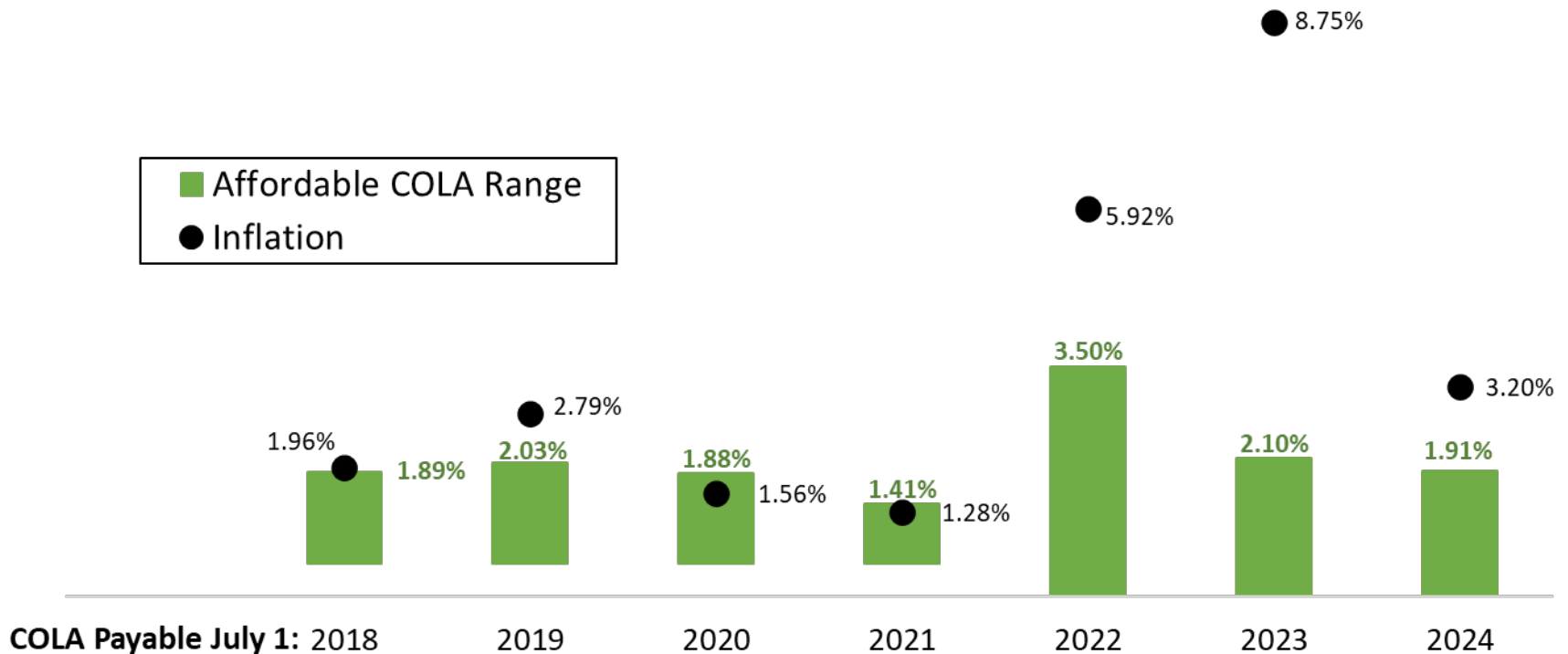
(1) Increase in the third calendar quarter average over the prior highest third calendar quarter average – the specified inflation measurement for the Social Security COLA effective the following January and the SDRS COLA effective the following July.





# Historical COLA Ranges

- Under the current COLA process, the full COLA range has only been affordable for the 2022 COLA
- The 2023 restricted maximum COLA is 1.91%, less than inflation





# Projected Funded Status and COLAs

- The **most significant and immediate risk to SDRS is investment risk**
- Investment returns will **first impact** the affordable COLA range:
  - Less than assumed will reduce restricted maximum COLA; greater than assumed will increase maximum or enable full COLA range
  - The variable COLA may not be sufficient to maintain 100% FVFR in all conditions and additional corrective actions may be required
- The following exhibits project the June 30, 2024 FVFR, based on ranges of FY 2024 investment returns, corresponding July 2025 COLA ranges, and likelihoods of achieving returns:
  - Projections utilize an actuarial model intended to estimate short-term changes in funded ratios and resulting COLA ranges
  - Demographic experience is assumed to match assumptions
  - Likelihoods are calculated based on SDIC's investment portfolio statistics



# Projected Funded Status as of June 30, 2024 and July 2025 COLA Range<sup>(1)</sup>

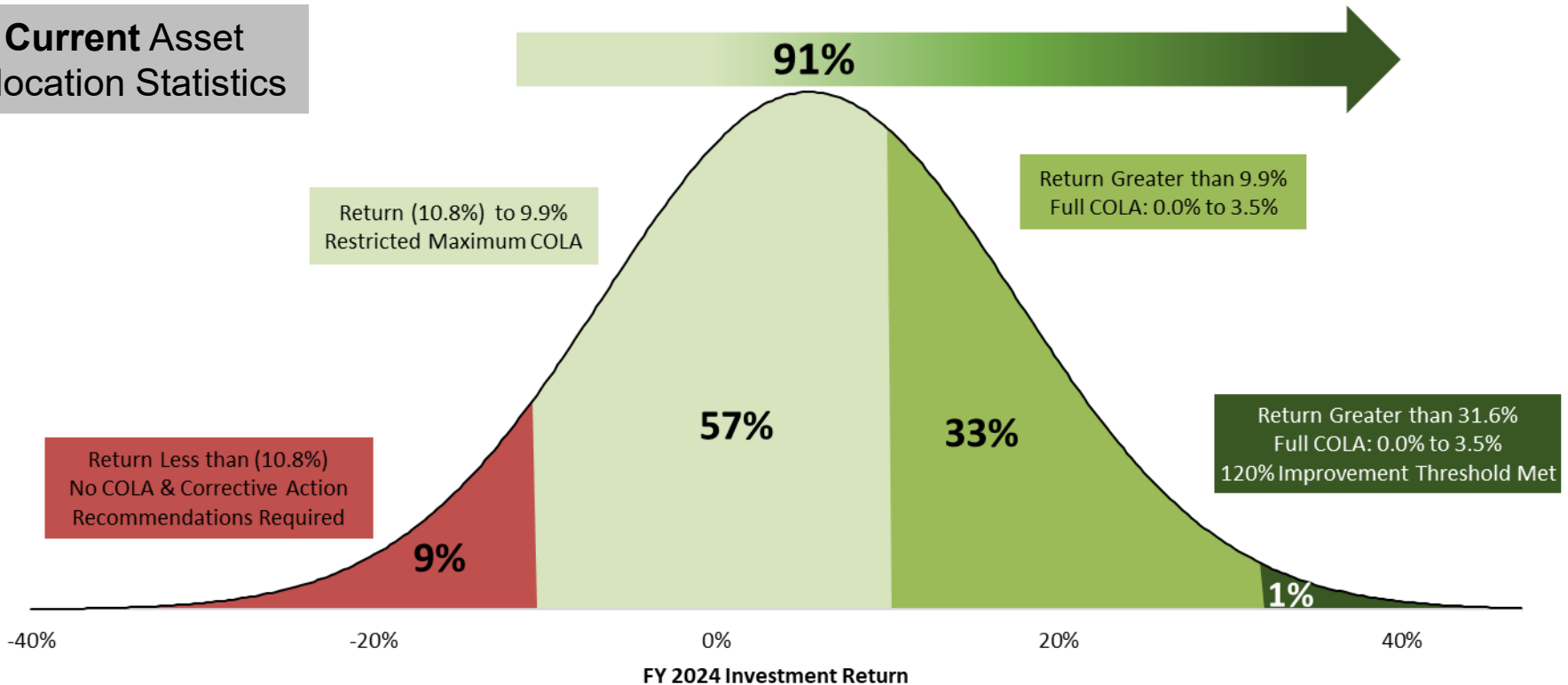
Net Investment Return FYE June 30, 2024	Baseline FVFR	COLA Range	Final FVFR	Applicable Conditions
<= (10.8%)	80.9%	NO COLA	<100%	Corrective Action Recommendation Required
(10.7%)	81.0%	0% to 0.01%	100%	Restricted Maximum COLA
(10.0%)	81.7%	0% to 0.10%	100%	
(5.0%)	86.3%	0% to 0.71%	100%	
0.0%	90.9%	0% to 1.27%	100%	
5.0%	95.5%	0% to 1.78%	100%	
6.5%	96.9%	0% to 1.92%	100%	
9.9%	99.9%	0% to 2.24%	100%	Full COLA Range
10.0%	100.1%	0% to 3.50%	100%	
12.5%	102.4%	0% to 3.50%	102%	
15.0%	104.7%	0% to 3.50%	105%	
31.6%	119.9%	0% to 3.50%	120%	
31.7%	120.0%	0% to 3.50%	120%	120% Benefit Improvement Threshold Met

(1) Before consideration of liability gains/losses for FYE June 30, 2024. June 30, 2023 Baseline FVFR: 96.7% and COLA Range: 0.0% to 1.91%.



# Projected Range of 2025 COLA and Likelihoods

## Current Asset Allocation Statistics



- Ignoring FY 2024 investment returns to date, the preliminary likelihoods for July 2025 COLA ranges, primarily driven by FY 2024 investment returns, are:
  - 9% likelihood: No COLA and corrective action recommendations required
  - 57% likelihood: COLA equals CPI-W increase between 0.0% and a restricted COLA maximum
  - 34% likelihood: COLA equals CPI-W increase between 0.0% and 3.5%; 2% likelihood 120% benefit improvement threshold met

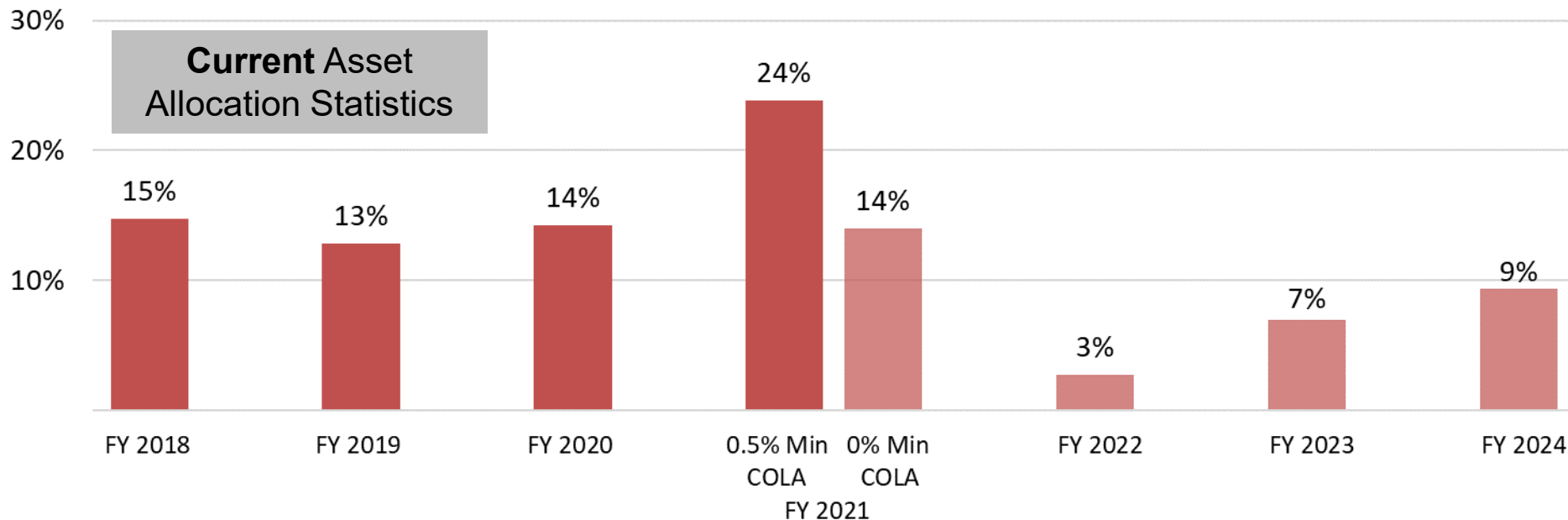
Before consideration of liability gains/losses. Likelihoods based on SDIC FY 2024 current asset allocation investment portfolio statistics (mean = 5.06%, standard deviation = 12%).



# Historical 1-Year Corrective Action Requirement Likelihoods

Investment experience is the primary driver of the likelihood of required corrective action recommendations. Changes in market conditions and expectations for future returns also impact the likelihood.

1-Year Likelihoods of Required Corrective Action Recommendations





# Projected Funded Status and Risk Analysis Summary

- July 2022 SDRS COLA was 3.5%, the first time the full COLA range was affordable under the current COLA process
- The SDRS COLAs for July 2023 and 2024 were restricted to affordable COLA limits of 2.10% and 1.91%, respectively
- FY 2024 returns of approximately negative 10.8% would require a **corrective action recommendation**
- FY 2024 returns of approximately 9.9% would make the **full COLA range affordable** for the 2025 COLA