



January 12, 2021

Mr. Travis W. Almond
Executive Director
South Dakota Retirement System
P.O. Box 1098
222 East Capitol Ave., Suite 8
Pierre, South Dakota 57501-1098

Re: South Dakota 2021 Legislative Session – House Bill 1033

Dear Travis:

House Bill 1033 clarifies and modifies SDRS provisions regarding reemployment after retirement to keep SDRS in compliance with federal law requirements.

Under federal law, allowing a member to receive a benefit before a bona fide separation of service can jeopardize the qualified status of the plan and result in an early distribution penalty to the member if less than age 59 ½. A separation of service must be a period during which the employee has no relationship with the employer, regardless of classification.

SDRS provisions currently require a three-month separation of service at retirement. Benefits of members who retired without an early retirement reduction are currently reduced by 15 percent and the COLA is suspended during reemployment. Benefits of members who retired with a reduced early retirement benefit are currently suspended during reemployment.

The bill clarifies and revises the following SDRS provisions for retirees returning to work:

- A separation of service requires three consecutive months with no employment relationship with the employer, regardless of classification.
- A retirement will be valid only if the member has a separation of service, except if the member retires on or after age 59 ½ and is rehired to work less than 1,250 hours. However, if a member meets these conditions and subsequently exceeds 1,250 hours in the employer's fiscal year, benefits will be suspended during reemployment.
- The 15 percent reduction and COLA suspension for rehired retirees will not apply if the member is rehired to work less than 1,250 hours. However, if the member exceeds 1,250 hours in the employer's fiscal year and had a separation of service, the reduction and COLA suspension will immediately apply.



- Rehired members with a reduced early retirement benefit will no longer be subject to benefit suspension, but their benefits will be subject to the 15 percent reduction and COLA suspension during the employment period.

These changes to SDRS provisions will have a net effect of a slight reduction in unexpected future increases in SDRS accrued liabilities. Under current provisions, some members retire earlier than they would have otherwise because they can receive retirement benefits and continue full-time employment under a specific employment classification. Under the revised provisions in this bill, such members are expected to begin drawing benefits later than under the current provisions, which reduces SDRS costs.

That cost savings will be partially offset due to two changes included in the bill. The bill eliminates the suspension of benefits for rehired members who initially retired with a reduced early retirement benefit; they will be treated identically to other rehired retirees. In addition, a limited number of retired members who are considered full-time by their employer, but customarily work less than 1,250 hours in the employer's fiscal year, will no longer be subject to the 15 percent benefit reduction and COLA suspension during their reemployments. Considering these two offsets, the changes to the provisions in this bill would slightly reduce future growth in SDRS liabilities.

Because SDRS provisions include a variable COLA based on inflation and affordability, any reduction in future liability growth results in an increase in the affordable COLA SDRS payable to all SDRS members. There would be no material increase in SDRS liabilities.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas J. Fiddler", written in a cursive style.

Douglas J. Fiddler, A.S.A., E.A., M.A.A.A., F.C.A.
Senior Actuary

c: Ms. Jacquelyn Storm, SDRS
Ms. Jane Beer, SDRS