



2021 Proposed Legislation

South Dakota Retirement System

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SDRS Fiscal Year 2020 Highlights

Total System Membership	92,325
Active Contributing Members	41,327
Inactive Non-Contributing Members	20,656
Benefit Recipients	30,342
Fair Value of Assets	\$12.4 Billion
Actuarial Accrued Liability	\$12.3 Billion
Assumed Future COLAs	1.41%
Fair Value Funded Ratio	100.1%
Member and Employer Contributions	\$263.2 Million
Benefit Payments and Refunds	\$625.8 Million
Administrative Expenses	\$5.1 Million
Net Investment Income	\$192.2 Million
Minimum Statutory COLA	0.50%
Restricted Maximum COLA	1.41%
Prior Year Inflation	1.28%
July 2021 COLA	1.28%

HB 1030

An Act to revise and clarify certain provisions regarding the required minimum distribution methods of the South Dakota Retirement System.

The Issue

Currently, SDRS statutes include a reference to the provision of the federal code for required minimum distributions (RMDs) but no specific statutory language.

The Solution

Add statutory language consistent with IRC §401(a)(9), including provisions that comply with the CARES and SECURE Acts.

Legislative Summary

- ❖ RMD language added to the Supplemental Pension Benefit. Section 1.
- ❖ RMD language added to SDRS retirement benefit to reflect distribution date generally, distributions if member dies after distributions have begun, distributions if member dies before distributions have begun, the incidental benefit rule, and distributions deemed to be made in good faith. Sections 2, 3, 4, 5, & 6.
- ❖ RMD language added to the Supplemental Retirement Plan, with the additional language regarding CARES and SECURE Acts. Sections 7, 8, 9, 10, 11, & 12.
- ❖ RMD language added to the Special Pay Plan, with the additional language regarding CARES and SECURE Acts. Sections 13, 14, 15, 16, 17, 18, & 19.
- ❖ RMD language added to the Department of Labor retirement benefit. Sections 20, 21, 22, 23 & 24.

The Actuarial Statement

House Bill 1030 will have no material impact on the liabilities or assets of SDRS.

HB 1031

An Act to revise certain provisions relating to the South Dakota Retirement System.

The Issue

From time to time, certain statutes must be amended to be more precise or revised for consistent and accurate administration of the system. Notary requirements were not providing the level of security that was expected. Use of certain terminology is inconsistent with its use in the Internal Revenue Code. Obsolete references in statute.

The Solution

Provide legislation to address appropriate and necessary changes.

Legislative Summary

- ❖ Clarify picture identification requirement for applications for membership or benefits. Section 1.
- ❖ Remove notary requirements and instead require a driver license or other picture identification issued by a government or tribe for applications for refunds, generational retirement benefits, and supplemental pension benefits. Sections 2, 4, & 5.
- ❖ Revise terminology for contributions not used in final average compensation to contribution credit and revise when payable. Section 3.
- ❖ Correct cross references and remove obsolete ones. Sections 6 & 7.

The Actuarial Statement

House Bill 1031 will have no material impact on the liabilities or assets of SDRS.

HB 1032

An Act to revise the minimum cost of living adjustment and revise terminology of the South Dakota Retirement System.

The Issue

SDRS contributions are fixed and benefits vary based on affordability to maintain a fully funded system and meet statutory funding requirements. The COLA is the primary variable benefit and is set each year considering both inflation and long-term affordability. It has worked as intended and is accepted and supported by members. However, severe economic conditions may require corrective action recommendations to meet statutory funding requirements.

The Solution

Reduce the minimum COLA amount to 0.0% from the current minimum of 0.5% as the most logical, prudent, and least disruptive change. This will avoid paying a COLA of 0.5% when not affordable and paying a COLA in excess of inflation. The bill will expand the economic conditions under which SDRS can remain fully funded and sustainable without the necessity of corrective action recommendations of more disruptive and substantive benefit reductions.

Legislative Summary

- ❖ **Revise definition of COLA. Section 1.**
- ❖ **Clarify when COLA is payable. Section 2.**
- ❖ **Revise minimum COLA limitation of 0.5% percent to 0.0% . Section 3.**
- ❖ **Revise terminology from the term, annual increase, to COLA. All sections.**
- ❖ **Revise supplemental pension benefit language for clarity and to remove obsolete language. Section 8.**

The Actuarial Statement

House Bill 1032 will reduce the SDRS liabilities by up to approximately \$500 million when SDRS cannot afford a COLA of 0.5% on a sustainable basis. This impact of the bill will vary from year to year depending on the funded status of the System. It will strengthen the ability of SDRS to weather a variety of economic conditions.

HB 1033

An Act to update certain provisions relating to the South Dakota Retirement System, to revise certain provisions relating to reemployment after retirement with the South Dakota Retirement System, and to declare an emergency.

The Issues

There is a compliance issue under federal law. Allowing an employee to receive a benefit before a bona fide termination or separation from service with an employer can:

- (1) Jeopardize the qualified status of the plan; and
- (2) Result in an early distribution penalty to the member if less than 59 ½.

Separation of service requires no relationship or employment regardless of classification as part-time, seasonal, temporary, leased, contract, or any other designation.

SDRS statutes require three consecutive months of separation of service.

SDRS suspends benefits for employees who return to full-time employment after retirement with a reduced benefit due to early retirement but continues the benefit with a 15 percent reduction and a suspension of the COLA for those who retire without an early retirement reduction.

The Solution

Clarify and revise certain provisions relating to returning to employment after retirement.

- A separation of service requires three consecutive months with no employment relationship, regardless of designation as temporary, seasonal, leased, contract, or any other relationship.
- 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 those conditions and subsequently exceeds 1,250 hours in the employer's fiscal year, benefits will be suspended during the employment period.
- 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.

Add an emergency clause because this is a qualification issue for the plan.

Legislative Summary

- ❖ Clarify what constitutes a separation from service. Section 1.
- ❖ Clarify that bona fide separation is required before returning to work. Section 2.
- ❖ Provide limited exception to separation of service requirement for member who retired on or after age 59 ½ and is reemployed to work fewer than 1,250 hours. Section 3.
- ❖ Permit reemployed retiree with reduced benefit to receive retirement benefit in the same manner as retiree with unreduced benefits. Section 4.
- ❖ Provide limited exception to benefit reduction and COLA suspension for retired member reemployed to work fewer than 1,250 hours. Section 5.
- ❖ Require employer tracking of employment hours for retired member reemployed to work fewer than 1,250 hours. Section 6.
- ❖ Cross reference the limited exception to separation from service in statute relating to invalid retirement. Section 7.
- ❖ Revise, update, add, and repeal definitions consistent with the revisions in the bill and update the reference to the Internal Revenue Code. Section 8.
- ❖ Reconcile statutes by repealing the term, permanent, in reference to full-time employee. Sections 8, 9, 10, 11, 12, 13, & 14.
- ❖ Add emergency clause for effective date of April 1, 2021. Section 15.

The Outcome of HB 1033

- Solves the IRS compliance issue
- Removes the suspension of the SDRS benefits for retirees who retired with a reduced benefit and provides consistent treatment for all retirees
- Provides least disruptive changes for employees and their employers

The Actuarial Statement

House Bill 1033 will keep SDRS in compliance with IRS requirements and reduce unexpected future increases in SDRS liabilities. Because SDRS COLAs vary based on inflation and affordability, a reduction in unexpected future liability growth will result in an increase in the affordable SDRS COLA payable to all SDRS members. There would be no material increase in SDRS liabilities.

SDRS Benefits Payable by County

The following exhibit presents a schedule of the annualized benefits payable as of July 1, 2020, by SDRS on a county-by-county basis.

County	Benefit Recipients	Annual Benefits	County	Benefit Recipients	Annual Benefits	County	Benefit Recipients	Annual Benefits
Aurora	132	\$2,101,827	Fall River	324	\$4,648,427	McPherson	75	\$1,086,874
Beadle	526	\$10,075,394	Faulk	117	\$1,690,125	Meade	682	\$13,003,453
Bennett	49	\$825,030	Grant	206	\$3,676,219	Mellette	55	\$680,542
Bon Homme	325	\$5,194,870	Gregory	163	\$2,588,362	Miner	79	\$1,594,392
Brookings	1,552	\$39,663,531	Haakon	62	\$948,092	Minnehaha	4,066	\$95,873,700
Brown	1,248	\$26,403,454	Hamlin	198	\$3,364,090	Moody	202	\$3,192,669
Brule	142	\$2,862,980	Hand	102	\$1,549,087	Oglala Lakota	18	\$326,646
Buffalo	3	\$51,493	Hanson	52	\$951,955	Pennington	3,408	\$76,978,495
Butte	339	\$5,463,554	Harding	36	\$495,688	Perkins	85	\$1,269,638
Campbell	69	\$1,038,456	Hughes	1,454	\$38,498,354	Potter	109	\$1,832,793
Charles Mix	244	\$4,585,903	Hutchinson	259	\$4,543,652	Roberts	290	\$4,913,600
Clark	129	\$1,927,039	Hyde	65	\$821,060	Sanborn	86	\$1,480,678
Clay	668	\$17,498,548	Jackson	54	\$921,771	Spink	439	\$6,949,735
Codington	827	\$18,923,589	Jerauld	73	\$1,124,718	Stanley	234	\$5,807,042
Corson	53	\$832,365	Jones	40	\$854,352	Sully	59	\$864,281
Custer	392	\$6,967,480	Kingsbury	221	\$3,794,453	Todd	59	\$1,103,317
Davison	565	\$12,547,864	Lake	461	\$9,658,901	Tripp	201	\$3,336,666
Day	225	\$3,751,597	Lawrence	980	\$21,050,560	Turner	253	\$3,873,668
Deuel	136	\$2,254,933	Lincoln	417	\$7,207,417	Union	344	\$6,534,489
Dewey	99	\$1,709,589	Lyman	92	\$1,557,349	Walworth	236	\$4,248,256
Douglas	90	\$1,553,632	Marshall	187	\$3,152,801	Yankton	900	\$18,098,683
Edmunds	112	\$1,931,904	McCook	156	\$2,852,030	Ziebach	24	\$405,640

Total SDRS Benefits Payable in South Dakota	\$ 537,569,752
Total SDRS Benefits Payable Outside of South Dakota	\$ 74,966,004
Total SDRS Benefits Payable	\$ 612,535,756

Total Cement Plant Benefits Payable in South Dakota	\$ 4,103,528
Total Cement Plant Benefits Payable Outside of South Dakota	\$ 389,568
Total Cement Plant Benefits Payable	\$ 4,496,066

Total SDRS and Cement Plant Benefits Payable	\$ 617,031,822
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Mission Statement

To plan, implement, manage, and efficiently administer financially sustainable retirement income programs within the fixed resources available in accordance with fiduciary responsibilities and sound public policies.

Vision

Provide members and their families the opportunity to achieve financial security at retirement, death, or disability by delivering appropriate and equitable lifetime benefits, and promote, encourage, and facilitate additional member savings for retirement.



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