



# South Dakota Retirement System

## Retirement Laws Committee Update

January 2021



# Key Takeaways from 2020 Annual Funded Status Report

- SDRS **remains 100% funded** and is expected to remain 100% funded under most economic conditions
- The SDRS COLA varies with inflation and affordability and the **July 2021 COLA will be 1.28%**, which equals inflation for the prior year
- The State and other SDRS participating **employers remain unburdened** by the increasing retirement plan contribution requirements and balance sheet debt impacting many employers participating in public sector retirement systems



# SDRS Benefits

- During fiscal year 2020, SDRS paid **\$603 million in monthly benefits** to retired South Dakota public employees:
  - 88% of monthly benefit payments are made to current South Dakota residents
  - In addition, \$23 million in accumulated member and employer contributions were paid to terminated members
  - Monthly benefits will exceed \$620 million in fiscal year 2021
- SDRS benefits are designed to meet specific Board goals including a lifetime retirement **income replacement goal of 55%** of final average compensation for career members
- SDRS benefit structure also incorporates **variable benefit features** to adapt to changing economic conditions and enhance SDRS sustainability



# Reasons for SDRS Success

- Outstanding **long-term investment performance** has been the primary driver
- Commitment to manage the system within **fixed contributions** through:
  - Variable benefits
  - Benefit improvement discipline
  - Statutory requirements for corrective action recommendations and recognition that an uncertain future may require changes
- Planning, goal setting, risk identification/management, and monitoring results
- Ongoing support of the Executive and Legislative branches of state government

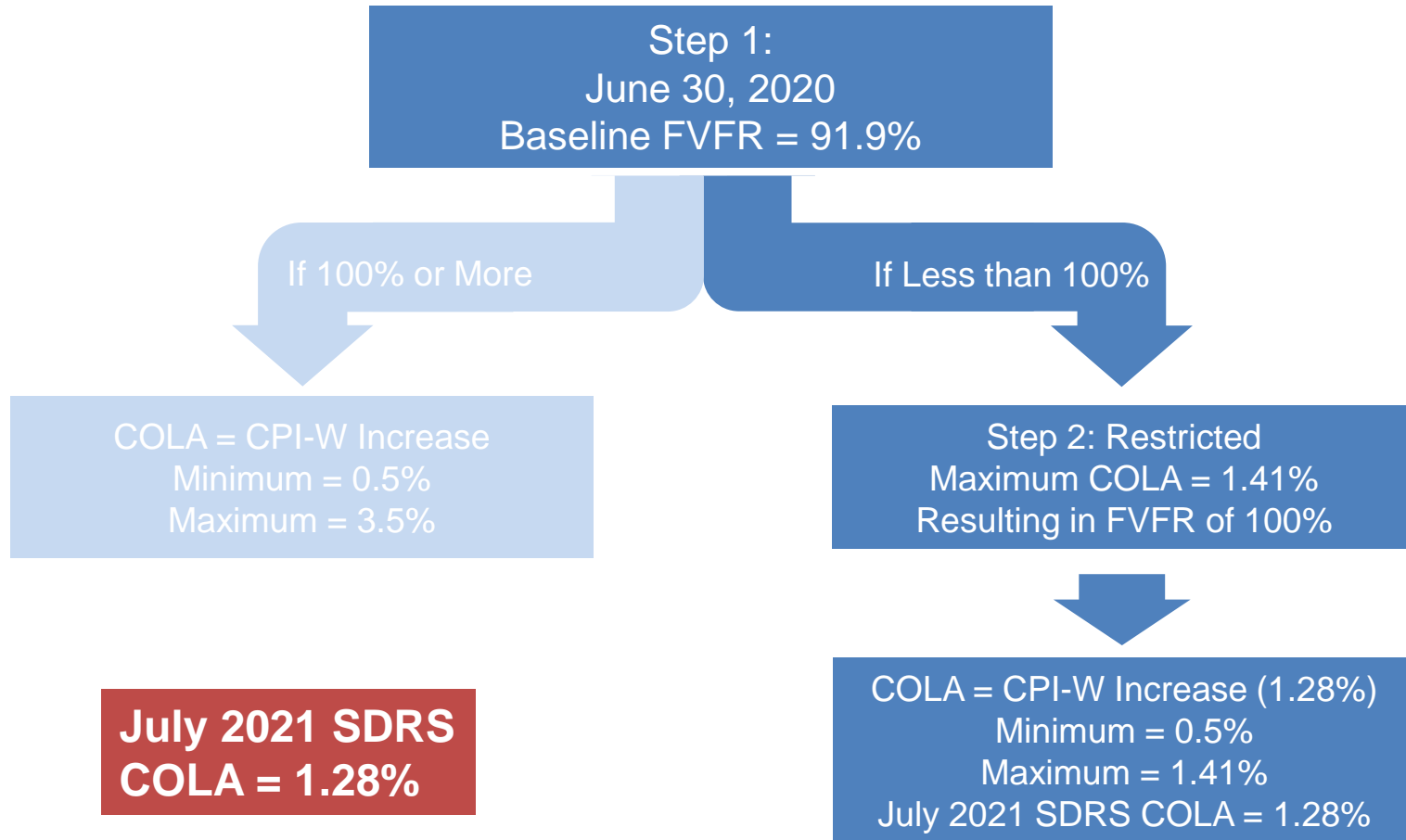


# June 30, 2020 Funding Results and Affordable 2021 COLA

- Financial statements of SDRS and employers will reflect **100% funding** based on the restricted maximum COLA of 1.41%
- The 2020 SDRS valuation is the **25th of the last 30 with a FVFR of 100%** or greater
- SDRS goal: to pay COLA equal to inflation and afford full COLA range (0.5% to 3.5%):
  - June 30, 2020 **affordable COLA range is 0.5% to 1.41%**
  - **July 2021 COLA will be 1.28%**, equal to inflation for the prior year



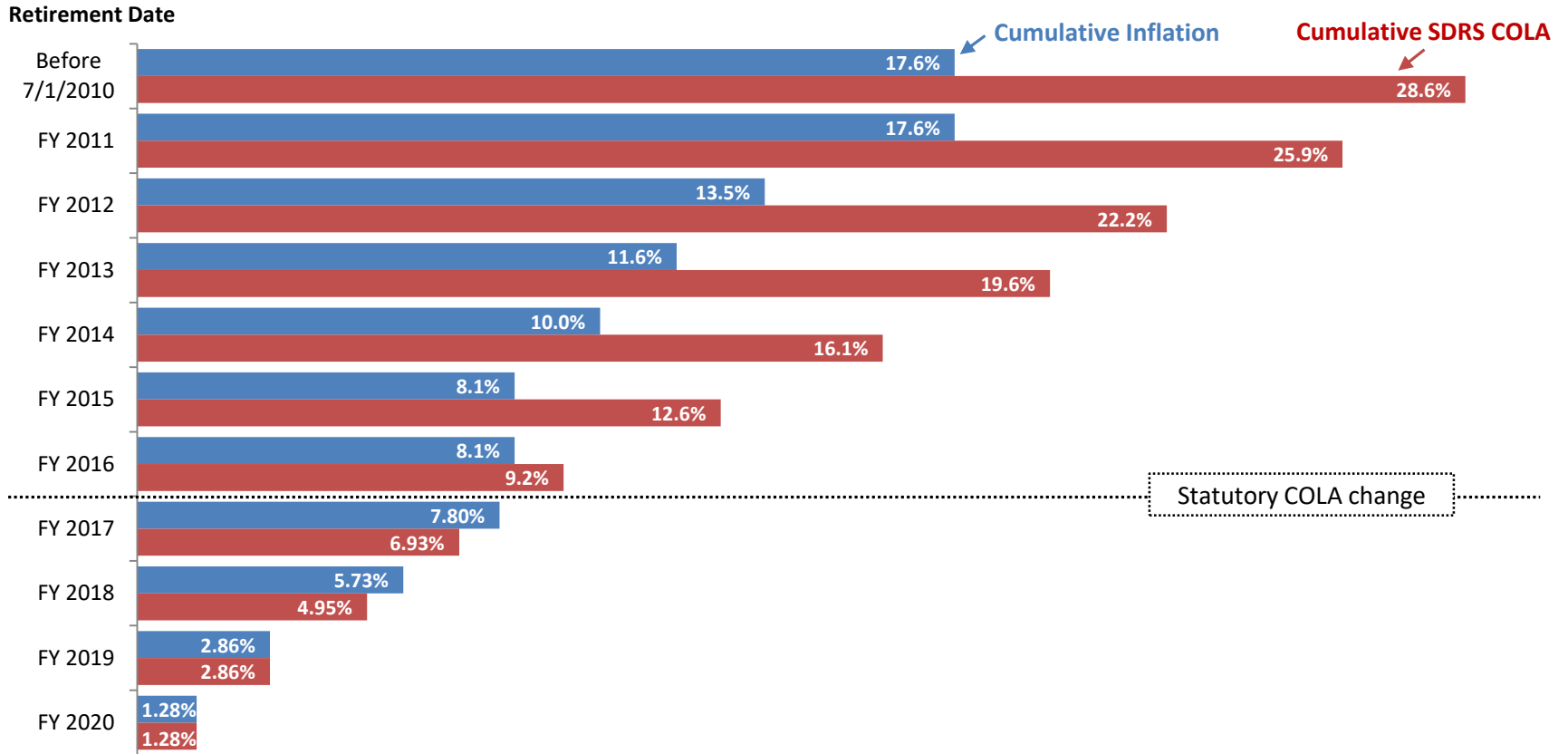
# July 2021 COLA Calculation





# Inflation and SDRS COLAs Since 2010

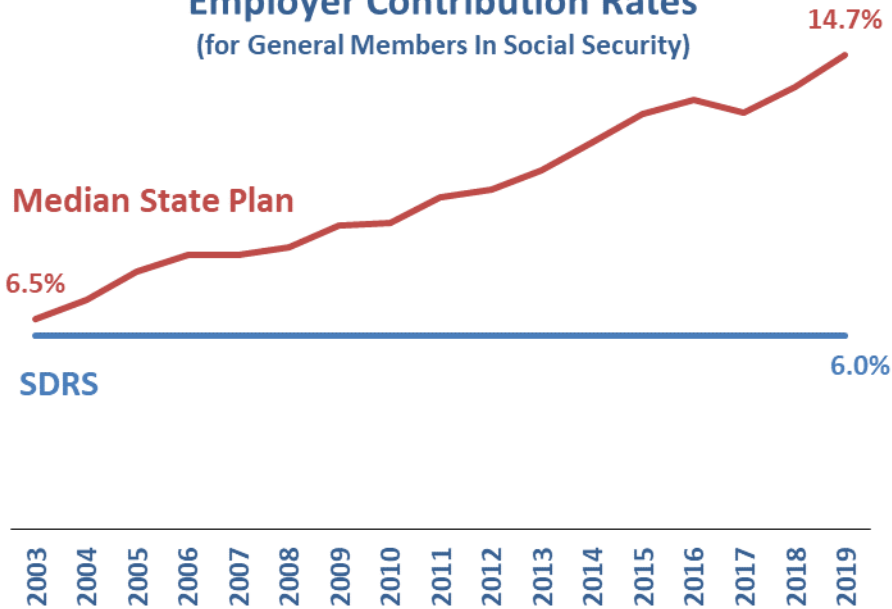
## Cumulative Inflation and SDRS COLA Increases 2011-2021



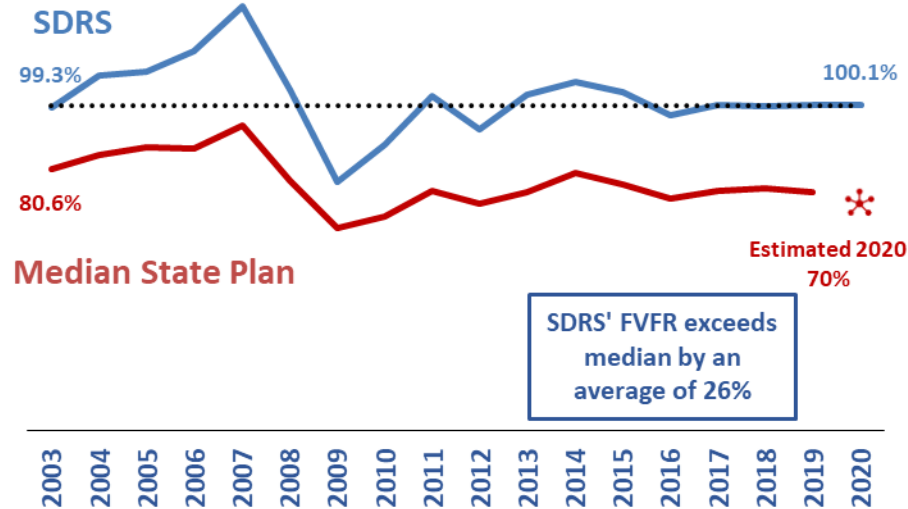


# Employer Contributions and Funded Status Comparisons

**Employer Contribution Rates**  
(for General Members In Social Security)



**Fair Value Funded Ratio**

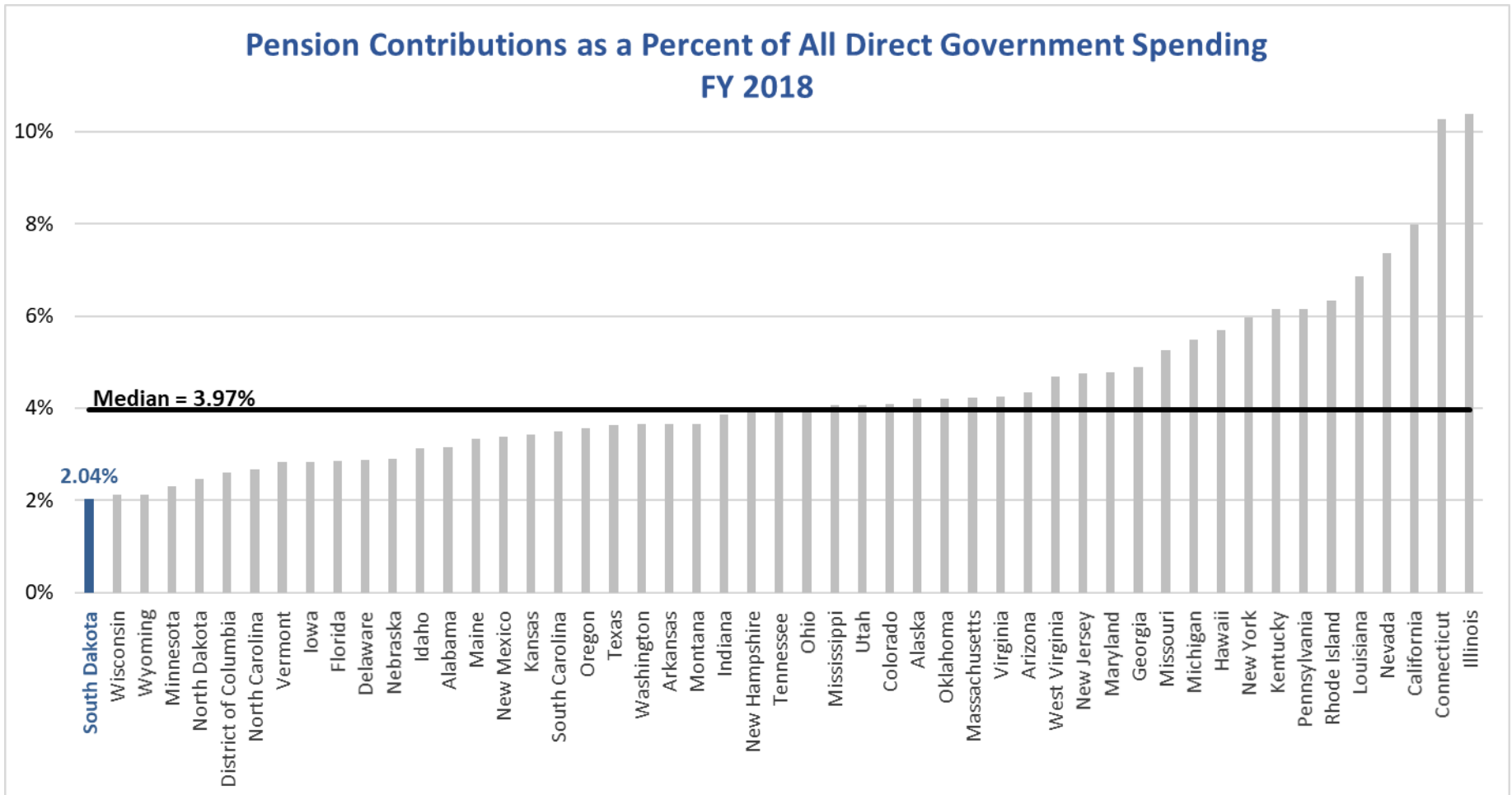


- SDRS is managed within the resources provided by **fixed, statutory member and employer contributions**
- Median employer contribution rate has **doubled** for other public retirement systems
- In most economic conditions, SDRS expects to remain **100% funded**





# Government Spending on Pensions Comparisons

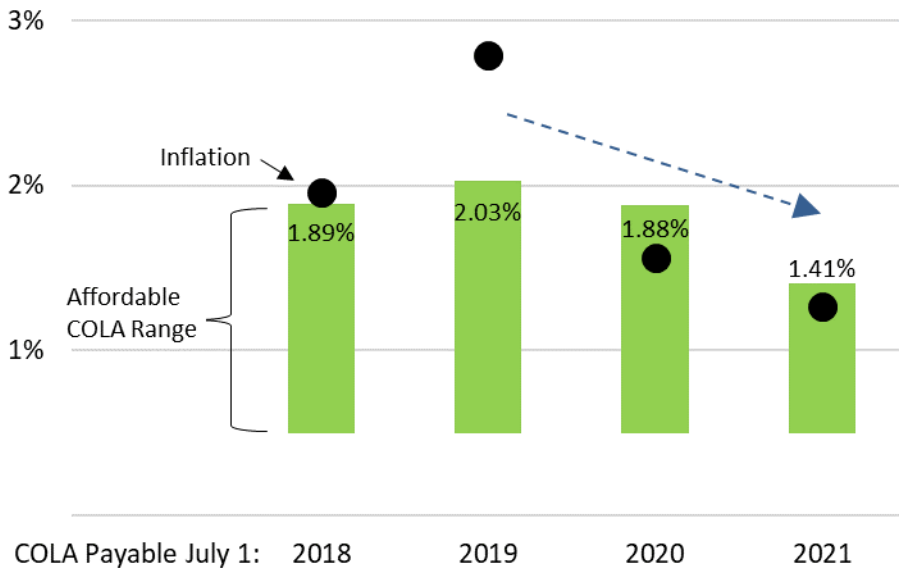


Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems.

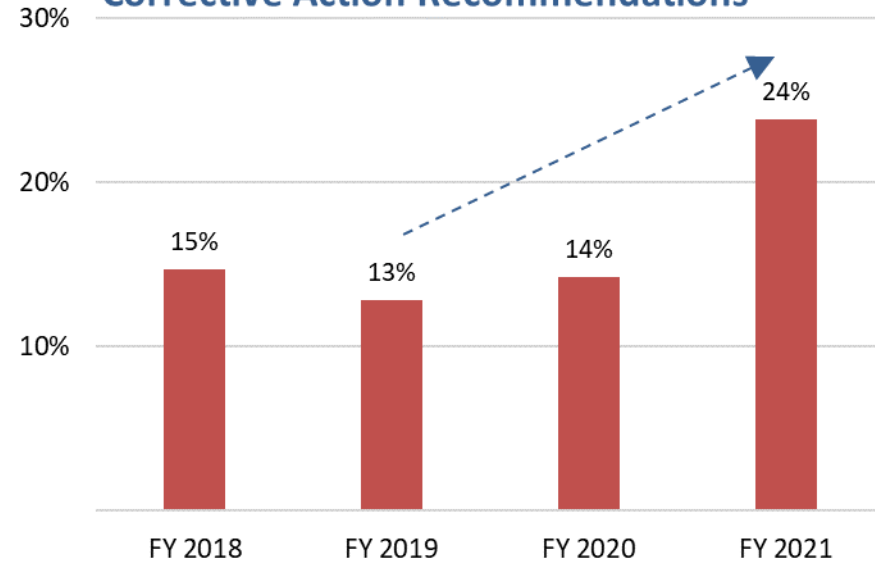


# Recent Important Trends

### Affordable COLA Ranges and Inflation



### 1-Year Likelihoods of Required Corrective Action Recommendations



- Recent investment experience has **reduced** the affordable COLA range and **increased** the likelihood of required corrective action recommendations
- Favorable experience, primarily investment returns in excess of the long-term assumption of 6.5%, would reverse these trends
- Continued unfavorable experience would prolong the recent trends



# Contingency Planning

- Because SDRS is funded with fixed contributions and annually must meet statutory funding thresholds or recommend corrective actions, **ongoing risk assessment and contingency planning processes are imperative**
- Throughout 2020, SDRS Board and staff developed an emergency plan to withstand more severe economic conditions
- Planning guide will provide framework for recommended changes if future conditions warrant and included **two initiatives** to enhance the resiliency of SDRS to unfavorable economic conditions



# Contingency Planning – COLA Initiative

- The **SDRS COLA** is designed to match inflation and avoid a reduction in a retiree's standard of living due to inflation after retirement:
  - Full COLA range is 0.5% to 3.5% when affordable; when not affordable, maximum reduced to highest affordable COLA – currently 1.41%
- Recommendations for benefit reductions are required when statutory funding thresholds cannot be met with minimum COLA
- Reducing minimum COLA to 0% would provide automatic response when benefit reduction recommendations would otherwise be required:
  - Applies **only when and to the extent required** to meet funding requirements
  - Avoids paying COLA when not affordable or exceeding low inflation
  - Results in a minimal, incremental change to retirees' benefits
  - **Delays or prevents more disruptive, substantive changes to meet funding requirements**



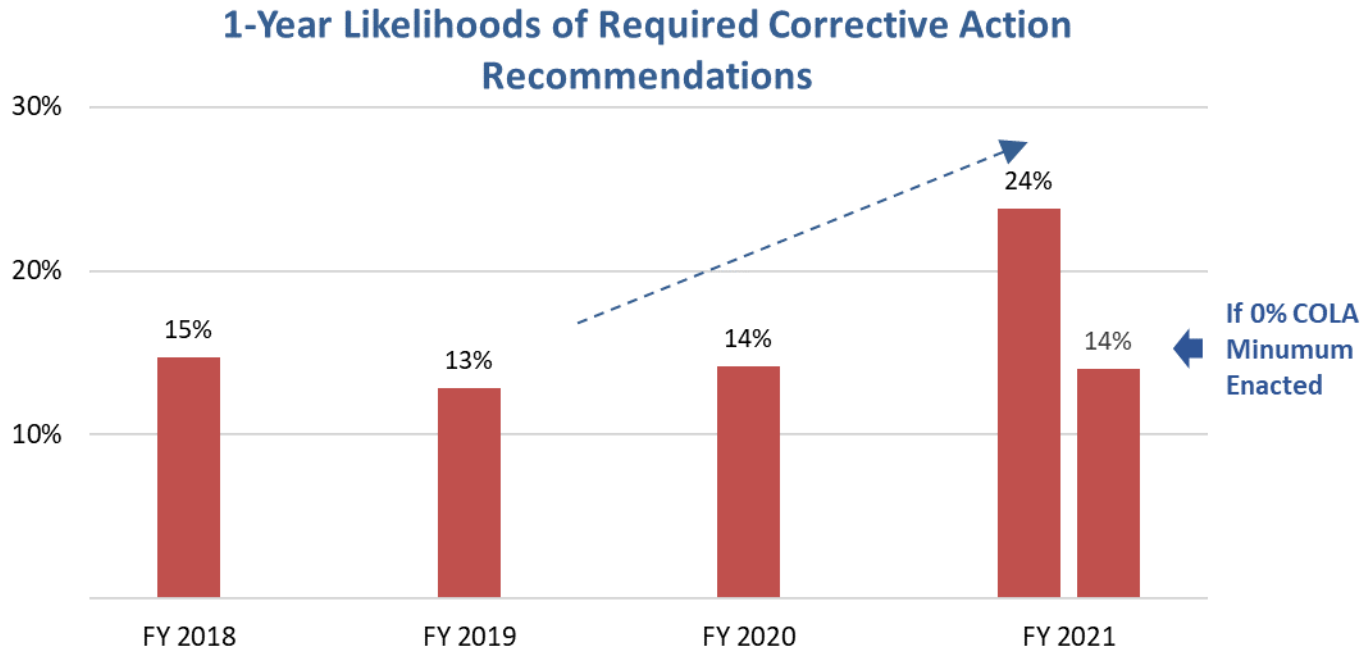
# Contingency Planning – Unfunded Liability Initiative

- **In extraordinary conditions**, to avoid more severe benefit reductions, Board may recommend permitting **small, short-term unfunded liability** affordable within fixed, statutory contributions
  - SDRS funding goal remains 100%
  - Only considered after COLA reduced to 0%
  - Would be alternative to additional member benefit cuts
  - Only considered after input received from all stakeholders
  - Would require approval of Legislative and Executive branches



# Contingency Planning

- Under current economic conditions, COLA initiative would reduce the likelihood of required benefit reduction recommendations from 24% to 14%



- Permitting an unfunded liability in extraordinary conditions would further lower the likelihood to 7%



# Summary

- SDRS **remains 100% funded** and is expected to remain 100% funded under most economic conditions
- SDRS is funded with **fixed contributions** that are **much lower** than other public retirement systems
- This year, **SDRS will pay more over \$620 million** to retired public employees; almost 90% of that to current South Dakota residents
- The SDRS COLA varies with inflation and affordability and the **July 2021 COLA will be 1.28%**, which equals inflation for the prior year
- The SDRS Board of Trustees continues to execute its **fiduciary duty** and SDRS continues to provide adequate, appropriate lifetime benefits on a sustainable basis