



South Dakota Retirement System

Joint Appropriations Committee Hearing

January 2024



Overview

- SDRS provides reliable retirement income to public employees in South Dakota:
 - Funded by fixed member and employer contribution rates, South Dakota spends the least on pensions in the nation, roughly 40% of the national average
 - \$720M paid annually to 33,200 retirees and beneficiaries; \$629M to current South Dakota residents, benefiting members and local economies
 - Remaining 100% funded avoids debt, helps retain state's AAA credit rating



Efficient Structure

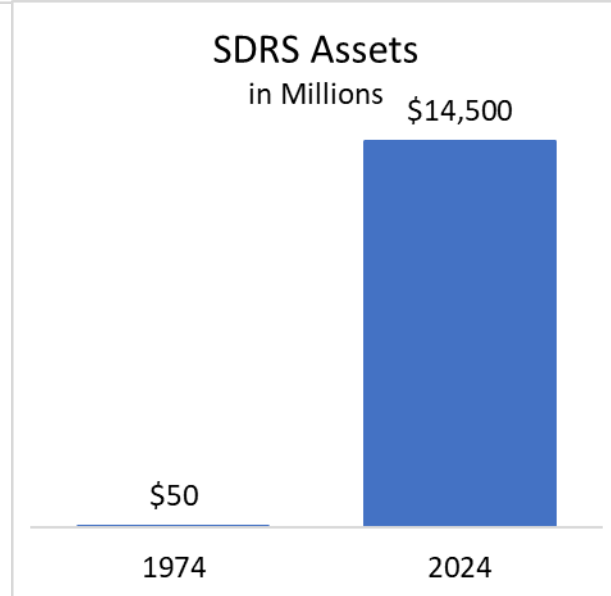
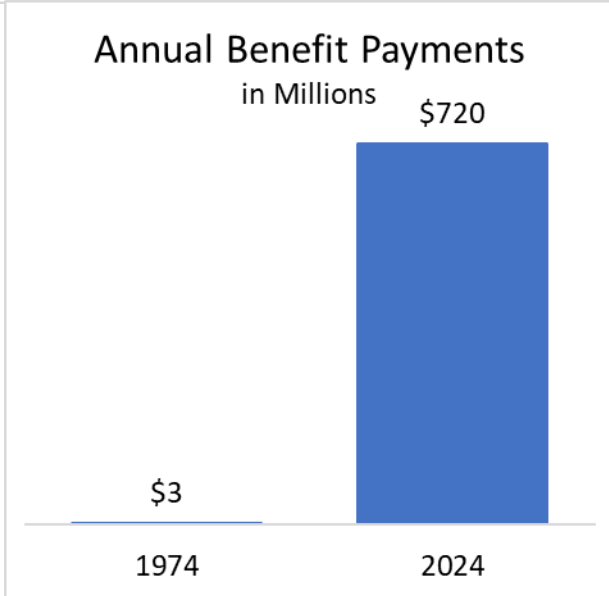
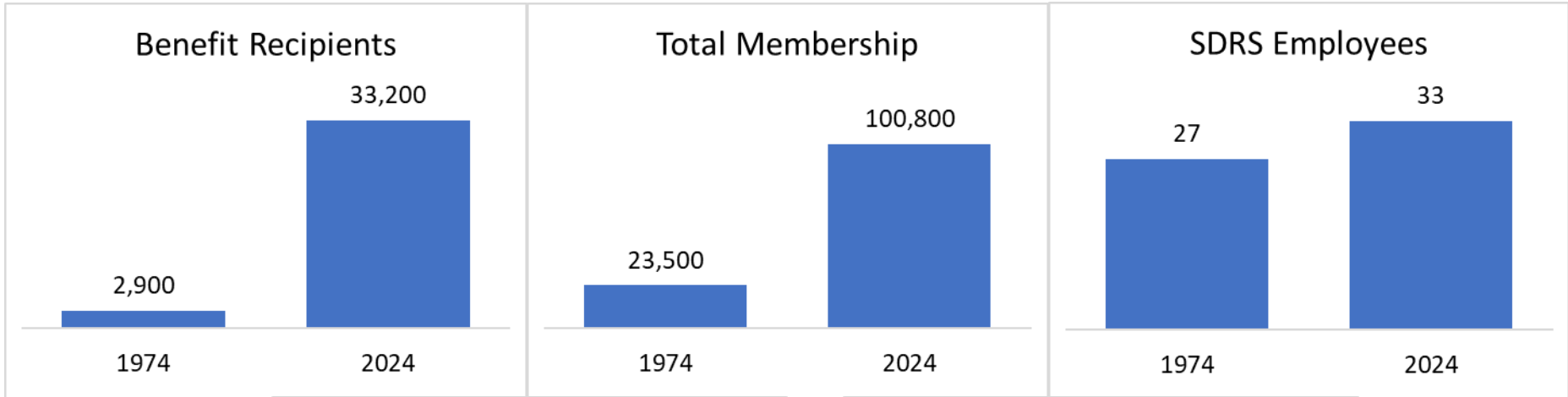
- SDRS is a tax-qualified, fully funded, defined benefit pension plan with variable benefit features and fixed member and employer contributions:
 - **Tax qualification:** No federal income taxes on member and employer contributions and investment income until benefits are paid in retirement
 - **Remaining fully funded** avoids any payment for unfunded liabilities and uses all contributions to fund benefits earned in the current year
 - Through risk pooling, higher investment returns, and optimally balanced portfolios, **defined benefit plans** can provide **twice as much benefit** than defined contribution plans for the same contribution*
 - **Variable COLA process** pays maximum sustainable benefits while remaining fully funded; July 2024 COLA will be 1.91%
 - **Fixed member and employer contribution rates** provide budgetary certainty for 507 participating employers

* Source: National Institute on Retirement Security: A Better Bang for the Buck 3.0, January 2022.



SDRS 50th Anniversary

Significant Growth Since Consolidation





Organizational Changes/Restructuring

- Offering virtual or in-person trainings and consultations to provide members and employers flexibility
- Staff realignment:
 - New Communications Director to increase focused, consistent messaging
 - Recent hiring of Data Manager and Business System Analyst to maximize efficient use of data and processes
- Moving to employer and member self-service through website:
 - Reduce paperwork and data entry
 - Simplify employer reporting and member processes
 - Ensure all transactions remain secure



Recent/Upcoming IT Related Projects

- Website enhancement:
 - New website completed and live
 - Employer and member self-service enhancements in process
 - Project contracted through BIT at cost of \$109,760
- Ongoing pension administration system upgrades:
 - Continual project to streamline operations
 - Contracted through BIT with assistance of internal staff



Internal Staff Efficiencies and Performance Outcomes

- Workflow and Process Efficiencies:
 - Pension Administration System
 - Intranet
- External review by CEM Benchmarking:
 - Public pension specific reviewer of services and costs
 - Review shows SDRS provides high level of service at a low cost
 - SDRS total administrative cost per member was 24% less than peer group in most recent report



Overtime, Recruiting/Retaining Difficulties, Unfilled Positions

- Overtime is rare – only 9.5 hours total in last four fiscal years
- Pre-retirement turnover is also rare – current employees' service with SDRS:
 - 20 to 35+ years of service: 10
 - 10 to 19 years of service: 13
 - 0 to 9 years of service: 10
- One employee retired in FY 2023
- Two terminations of employment and no retirements to date in FY 2024
- All positions are currently filled
- Reception employees are hardest to retain – recent changes have expanded duties and shared reception time with other employees



Unutilized FTE, Turnover, Long-term Vacancies

- FTE utilization was 32.39 during FY23 (Page 2 of Budget Brief Summary)
 - Savings from unutilized FTEs in the past fulfilled termination payout obligation or remain in trust fund
- Turnover is low, however
 - One intern was employed last summer
 - Small staff size and rare turnover make hiring interns to permanent positions difficult
- Five SDRS employees are currently eligible for unreduced SDRS benefits; 10 will be eligible within five years, 13 will be eligible within 10 years



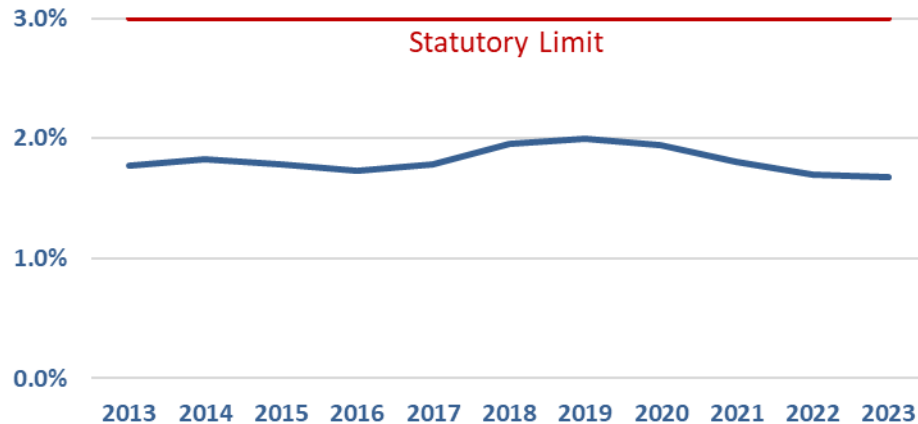
Proposed Budget Reductions/Increases (Pages 2-4 of Budget Brief Summary)

- No general funds utilized
- SDRS expenses are limited by statute to 3% of contributions; however, SDRS regularly limits expenses to less than 2% of contributions
- Two additional FTE and \$229,608 increase in expenditure authority requested
 - One FTE to expand audit staff and capacity
 - One FTE to facilitate succession continuity as senior staff near retirement
- Operational budget increase in expenditure authority of \$108,635
 - Inflationary increases

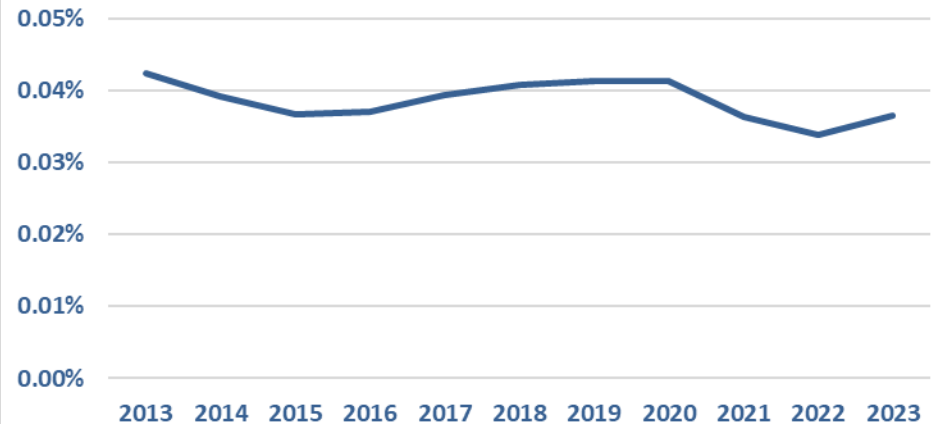


Summary

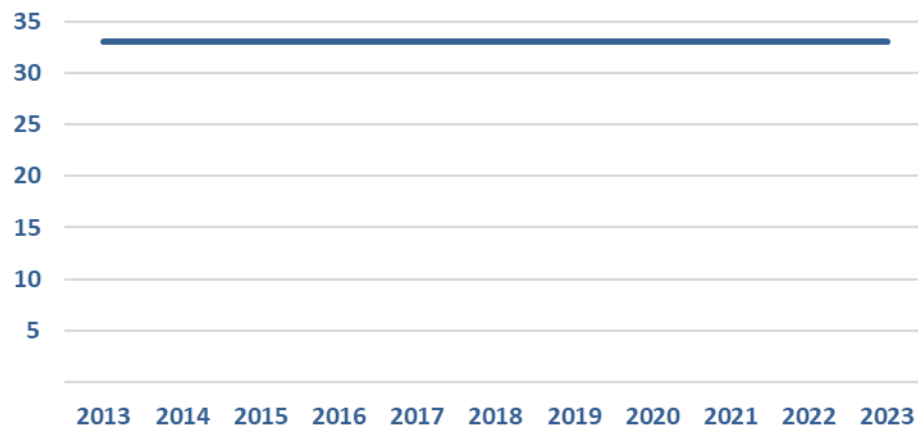
Administrative Costs as % of Contributions



Administrative Costs as % of Assets



Budgeted FTEs



Budgeted FTEs per 1000 Members

