South Dakota Retirement System

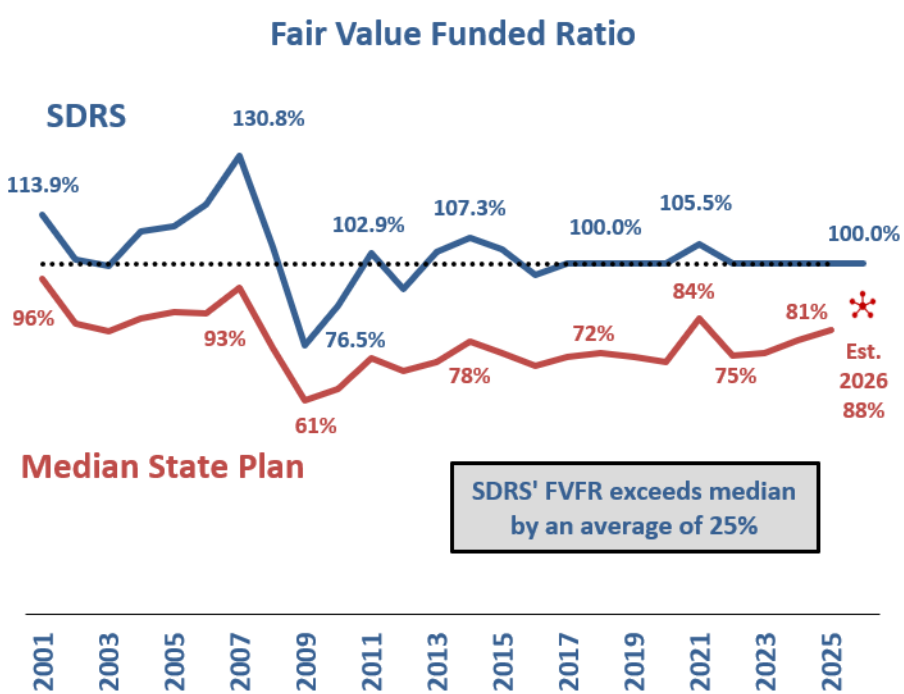
SDRS Update for the Executive Board of Legislative Research Council

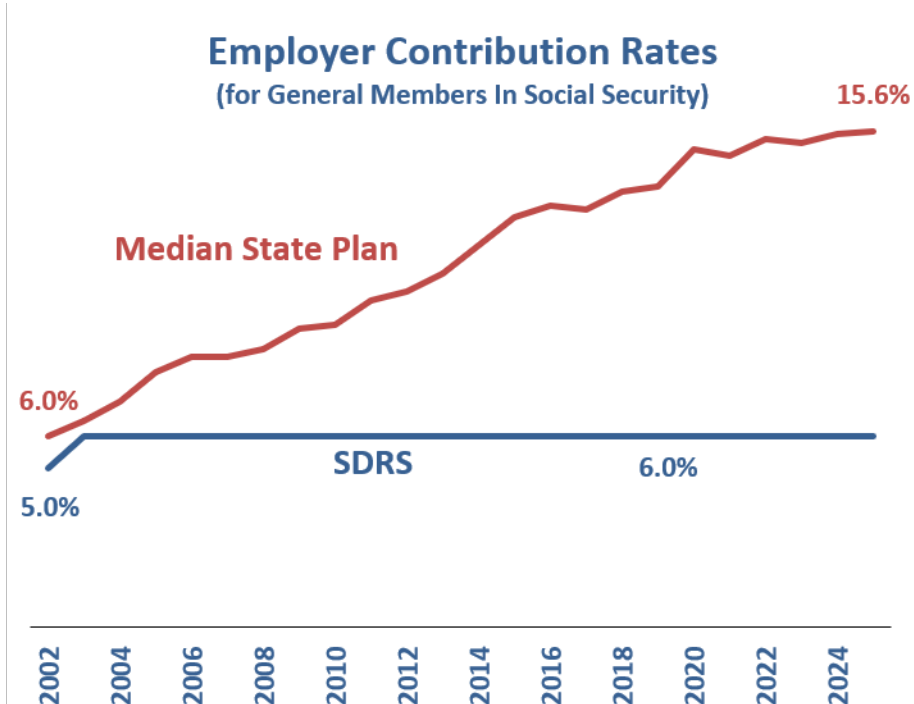
August 26, 2026

Unique Funding Structure

- As part of its fiduciary duty, the SDRS Board sustainably manages SDRS within the resources provided by **fixed contributions**
- SDRS benefits, primarily the COLA, vary as necessary to remain fully funded:
  - In other states, experience different from assumed causes employer contribution and funded ratio changes
  - At SDRS, experience different from assumed impacts the affordable SDRS COLA
- Under most economic conditions, the SDRS variable benefit structure will result in full funding, but a severe or prolonged downturn could require corrective action recommendations

Employer Contributions and Funded Status Comparisons

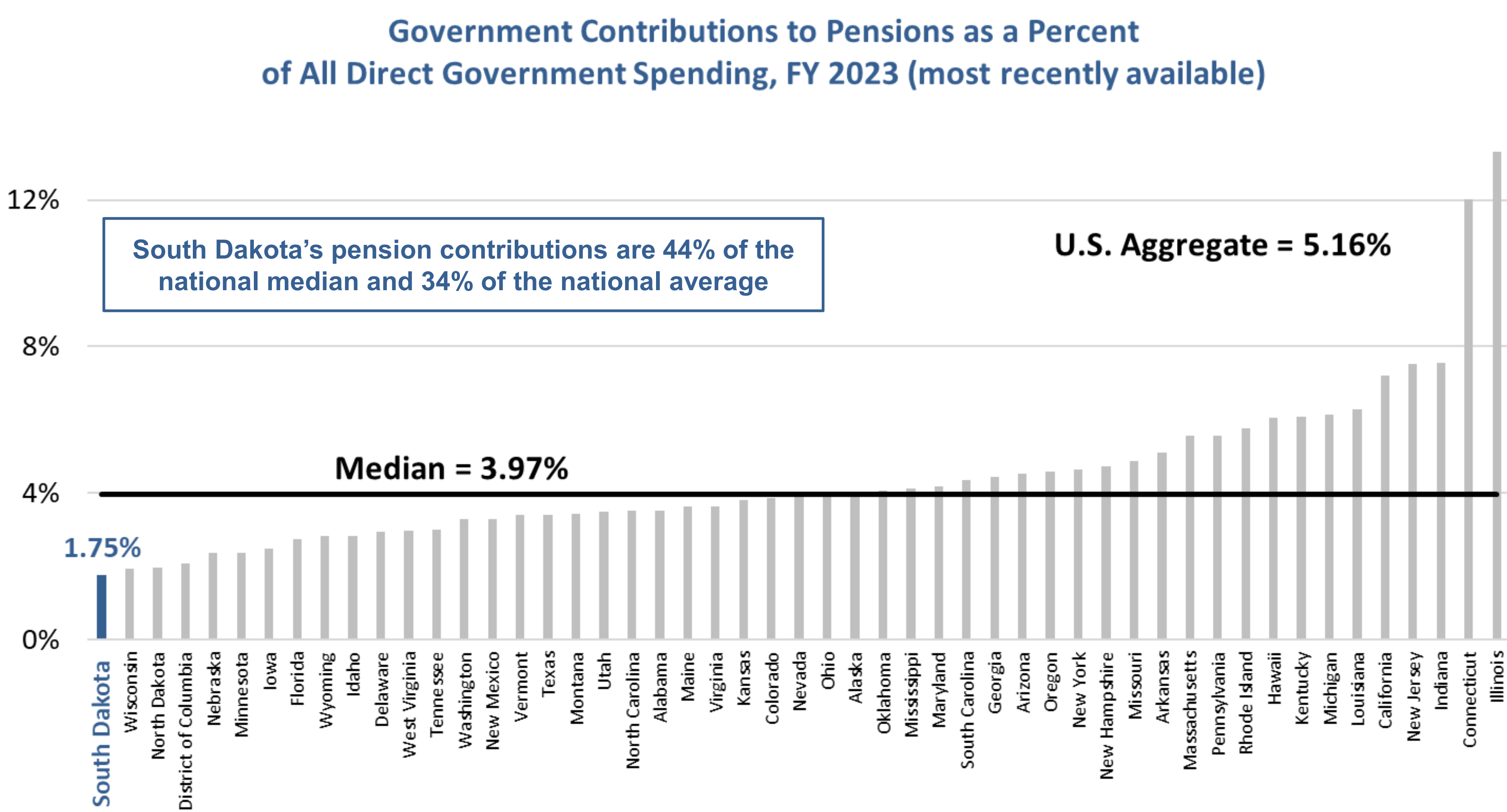




- SDRS COLA varies to maintain 100% Fair Value Funded Ratio (FVFR)
- Employer contribution rates for Class A members are 39% of the national median

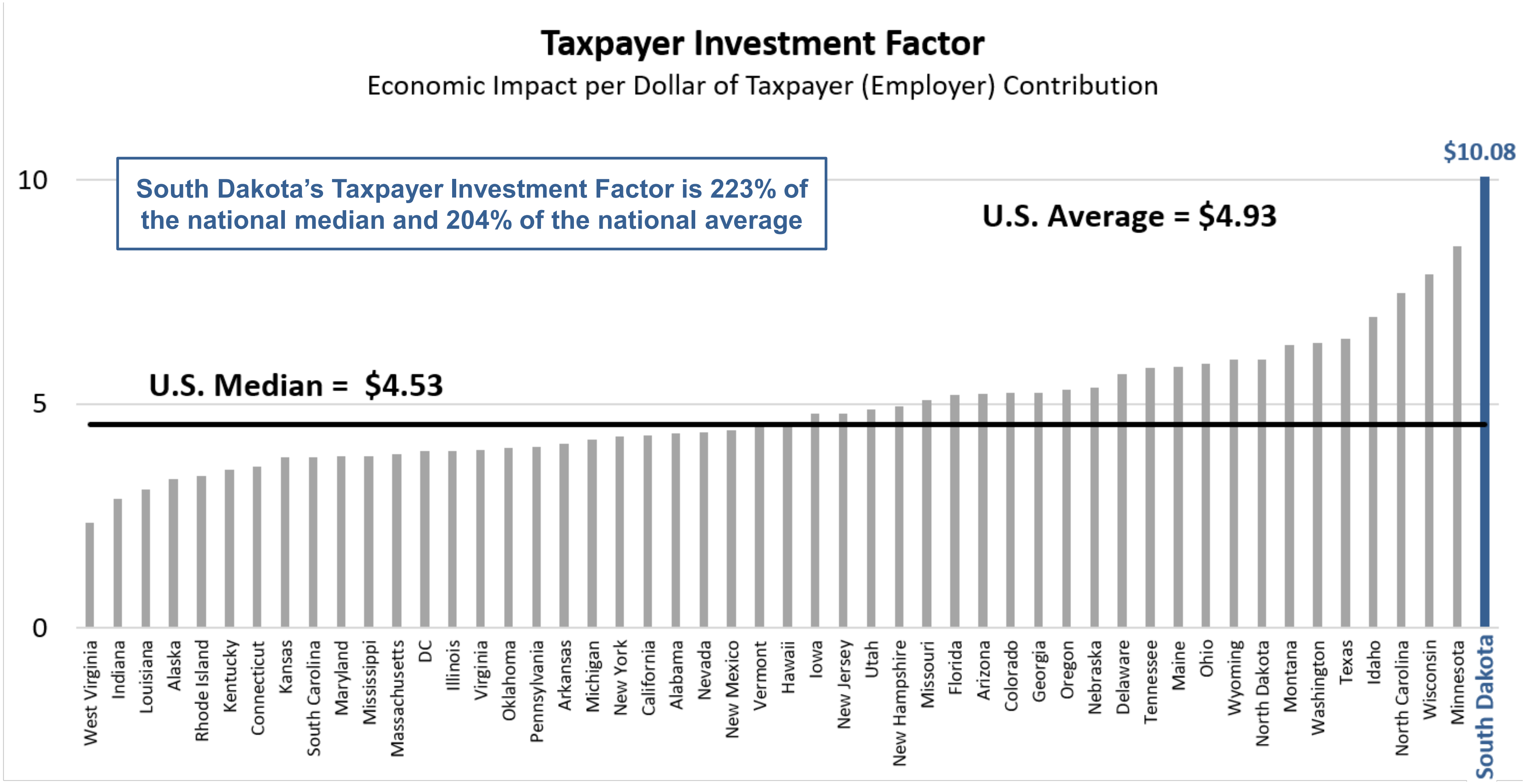
Median public sector FVFR from Public Plans Database, March 2026. Estimated 2026 median FVFR from Milliman public pension funding index July 2026. Employer contribution rates from NASRA Public Fund Survey, December 2025.

NASRA: Government Spending on Pensions



Data from NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems, March 2026

NIRS: Taxpayer Investment Factor



National Institute on Retirement Security: Pensionomics 2025: Measuring the Economic Impact of Defined Benefit Expenditures, January 2025.

Effects of SDRS Fixed Contribution / Variable Benefit Structure

- Fixed employer contributions provide budgetary certainty
- Variable benefit structure, primarily the COLA, provides as much benefit as affordable within fixed resources
- Statutory funding thresholds ensure funding remains on sustainable path
- Positive factor in keeping state's AAA credit rating, lowering borrowing costs
- **However, the ability to pay adequate and appropriate benefits is subject to affordability based on fixed resources:**
  - Diversion of SDRS resources for purposes other than providing income in retirement will diminish the ability to provide retirement security for all members

SDRS COLA

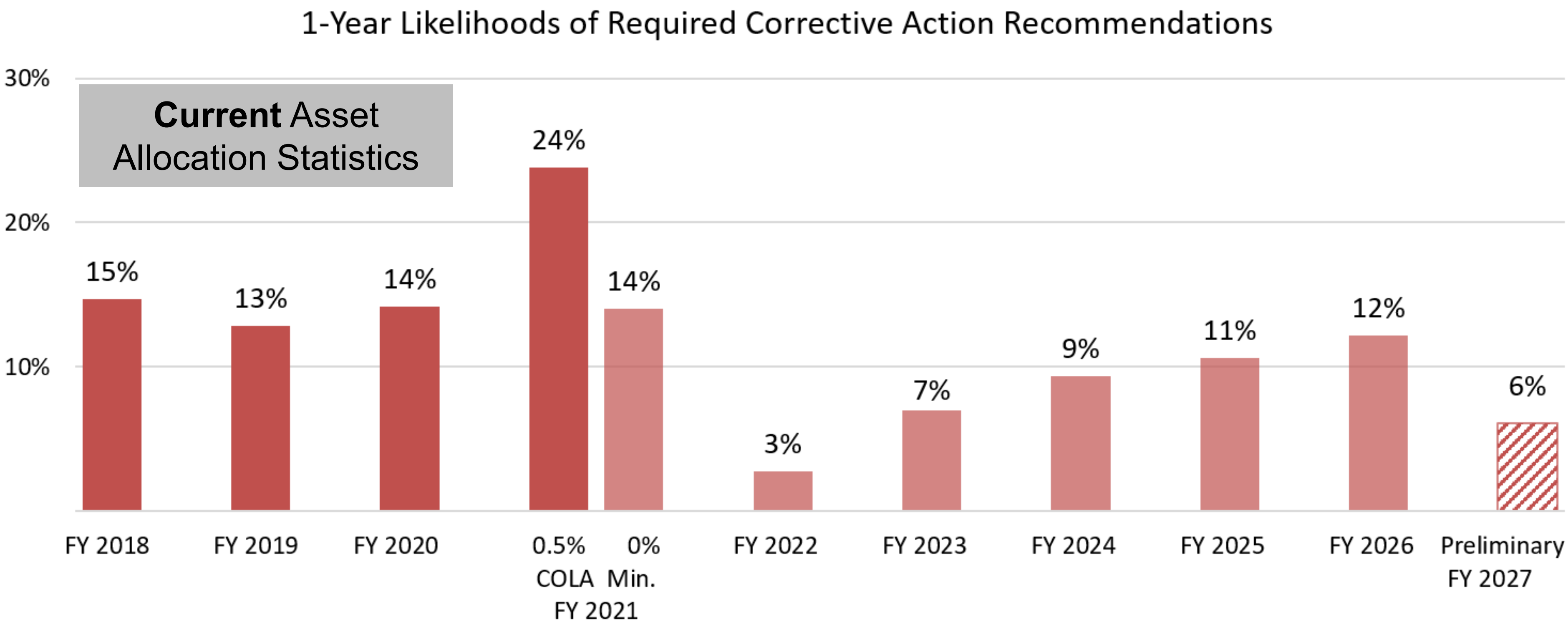
- Most state and local retirement plans provide automatic or ad hoc COLAs to offset impact of inflation on retirement income sufficiency:
  - Designs vary widely to fit each plan's unique funding and benefit design
  - No state plan's COLA has kept pace with recent high inflation
- SDRS goal is to pay a COLA equal to inflation, but the goal is subject to funding constraints reflecting **fixed member and employer contributions**:
  - COLAs vary so that SDRS remains fully funded with fixed contribution rates
  - Should funding fall behind, fixed contributions provide no mechanism to catch up
- The SDRS COLA has been less than inflation in recent years, however, over the last five years, the average SDRS COLA has:
  - Exceeded COLAs in all other regional plans (CO, ID, IA, KS, MN, MT, NE, ND, WY)
  - Trailed COLAs in only 12 other states (CA, GA, IL, ME, MO, MS, TN, UT, VA, VT, WA, WI), all but one plan with higher contributions and significant unfunded liabilities

June 30, 2025 Funding Results and July 2026 COLA

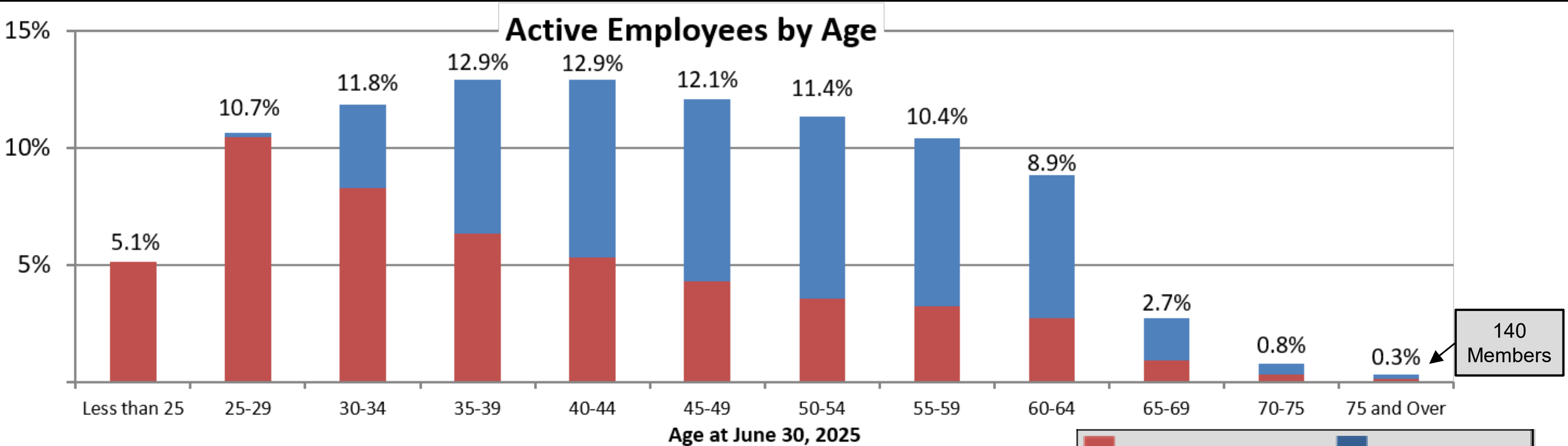
- When affordable, the SDRS COLA is equal to inflation with a 3.5% maximum:
  - Affordability requires a Baseline Fair Value Funded Ratio (FVFR) of 100% or more
  - June 30, 2025 Baseline FVFR is 93.5%, therefore COLA range must be restricted
- Current assets and contributions support an ongoing COLA of 1.56%:
  - July 2026 COLA maximum was 1.56%
  - CPI-W increase was 2.76%
  - **July 2026 COLA was 1.56%**
- Financial statements of SDRS and employers reflect **100% funded status** based on assumed future COLAs of 1.56%
- The 2025 SDRS valuation is the 30th of the last 35 with a FVFR of 100% or greater
- Preliminary estimate indicates a **July 2027 COLA of 1.95% - 2.05%** will be affordable while remaining 100% funded

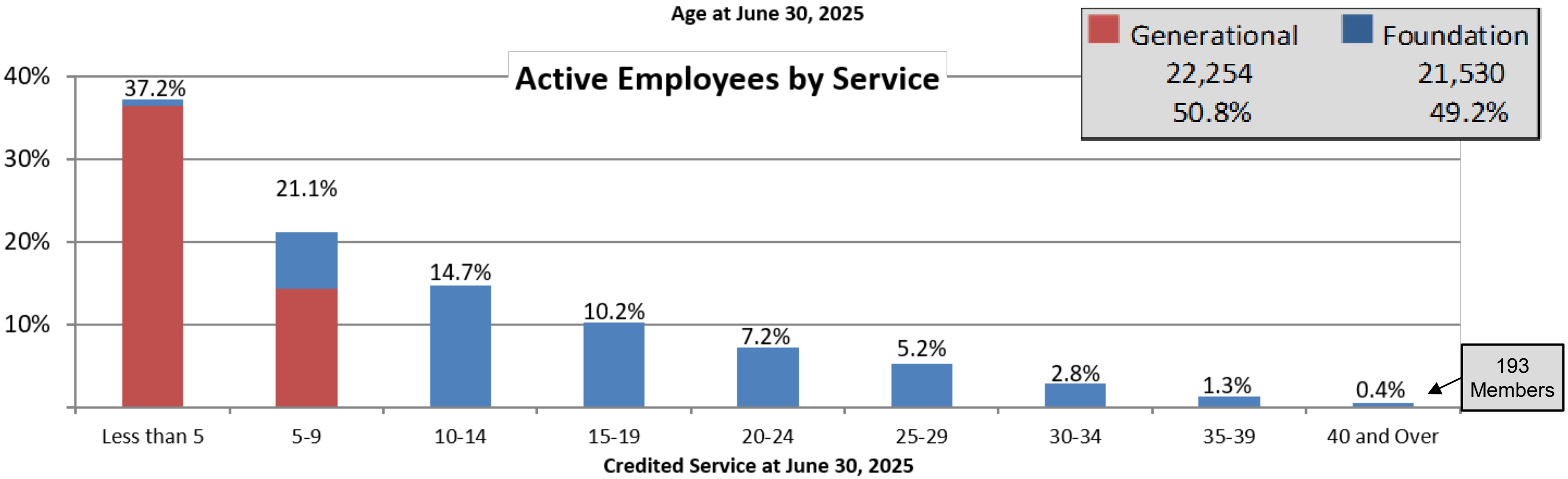
Historical 1-Year Corrective Action Requirement Likelihoods

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.



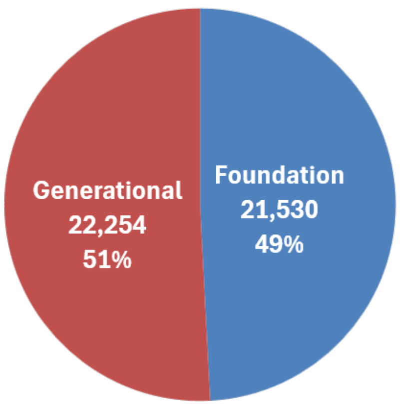
June 30, 2025 Active Membership



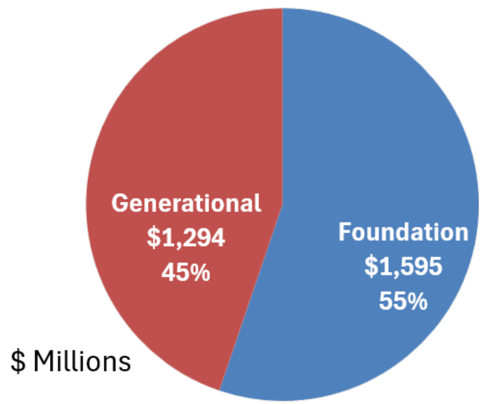


Transition to Generational Benefit Structure as of June 30, 2025

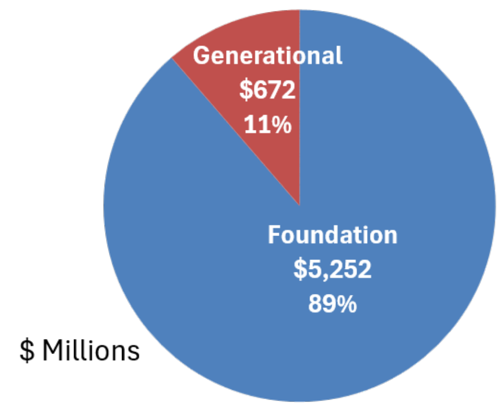
Active Members



Active Compensation



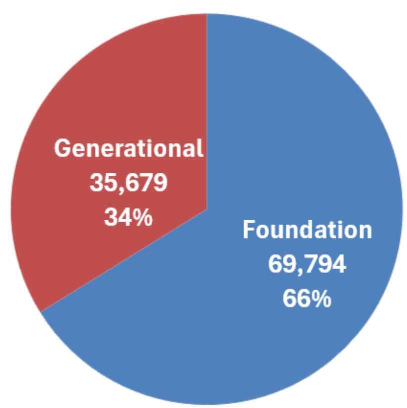
Active Liability



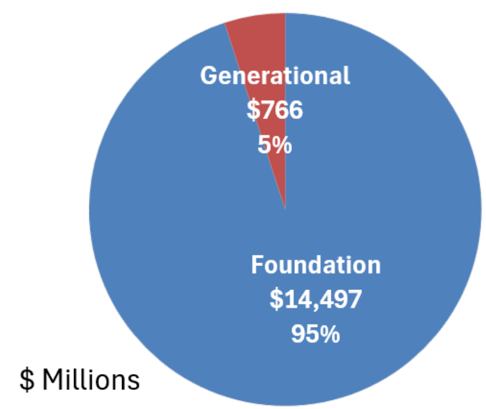
	Generational	Foundation
Avg Age	39.0	49.5
Avg Svc	3.4	17.6
Avg Pay	$58,147	$74,083

SDRS Avg Age: 44.2
SDRS Avg Svc: 10.4
SDRS Avg Pay: $65,985

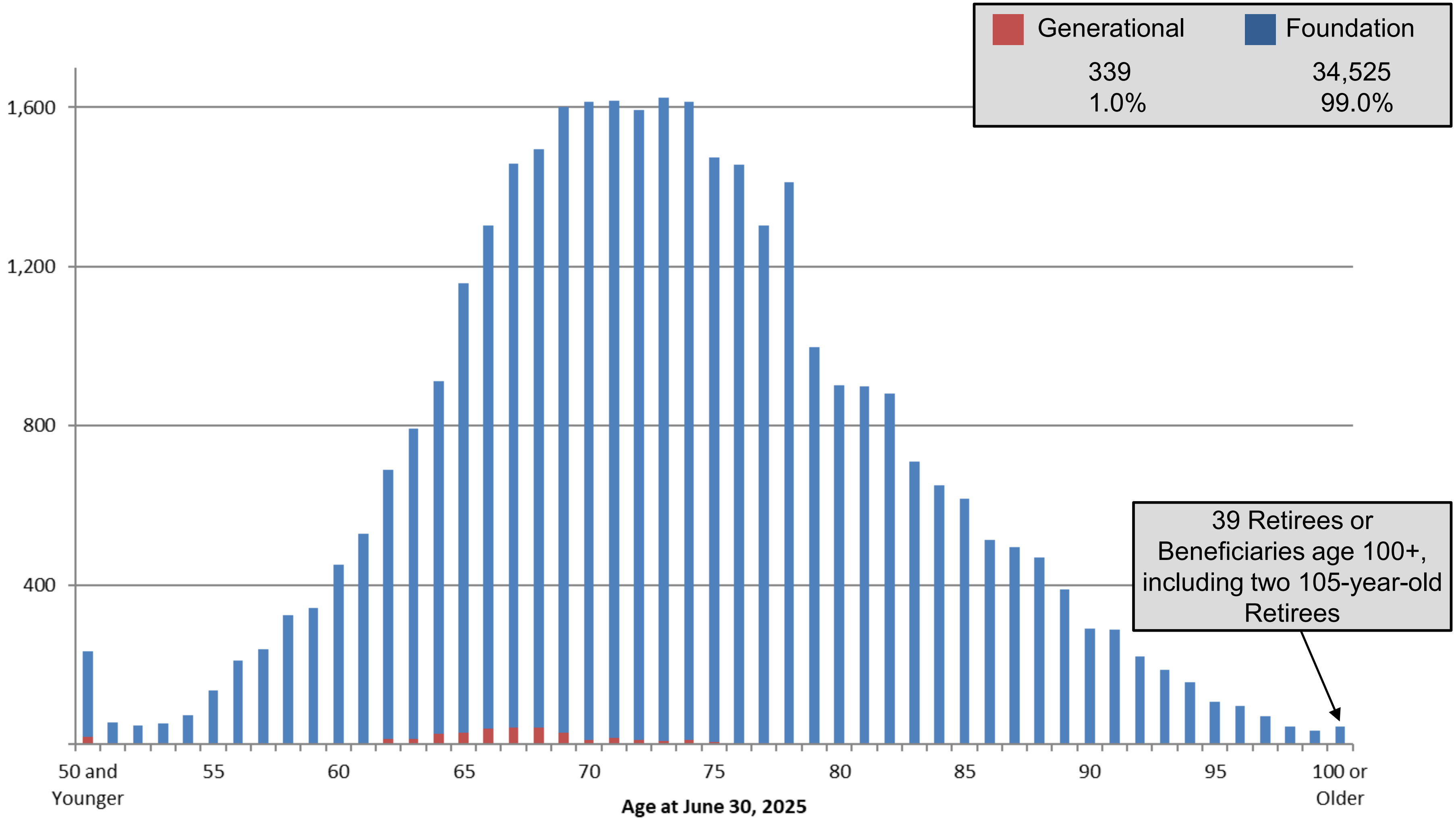
Total Members



Total Liability

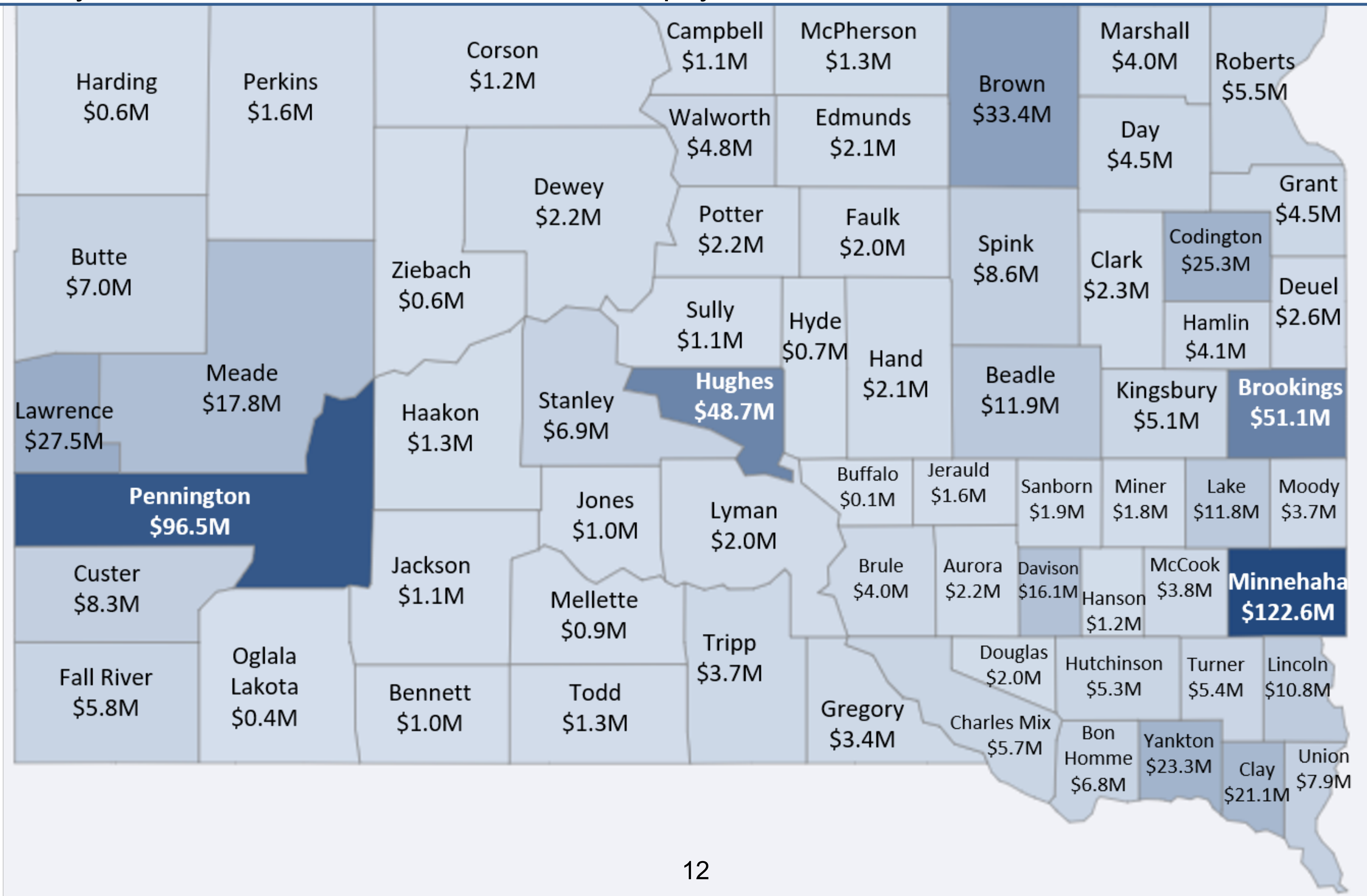


Distribution of Retirees, Beneficiaries, and Disabled Members by Age as of June 30, 2025



Annual Benefits to South Dakota Residents by County

As of July 2025, $775 million in annual benefits in pay, **$680 million to current South Dakota residents**



Summary

- SDRS is managed within the resources provided by **fixed contributions**
- The July 2026 SDRS **COLA was 1.56%;** SDRS remains 100% funded with a 1.56% COLA
- Preliminary estimate indicates a **July 2027 COLA of 1.95% - 2.05%** will be affordable while remaining 100% funded
- Under most economic conditions, SDRS variable benefits will result in full funding, but a severe or prolonged downturn could require Corrective Action recommendations