



Annual Report of the Funded Status of the
South Dakota Retirement System
to the
Governor and Legislature of the
State of South Dakota

JANUARY 2022

South Dakota Retirement System

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SDRS Fiscal Year 2021 Key Takeaways

- **SDRS exists to provide adequate and equitable lifetime retirement benefits for public employees in South Dakota to help them achieve financial security in retirement**
- **SDRS is sustainably managed within the resources provided by fixed, shared member and employer contributions that are much less than the national average**
- **SDRS' funding has greatly benefited from the superior long-term investment results generated by the South Dakota Investment Council**
- **SDRS is 105.5% funded at June 30, 2021 and is expected to remain at least 100% funded under most economic conditions because of the SDRS variable COLA**
- **The SDRS Cost of Living Adjustment varies with inflation and affordability and the July 2022 COLA will be 3.50 percent, the largest COLA in SDRS history**
- **The State of South Dakota 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**

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January 10, 2022

To the Governor and the Legislature of the State of South Dakota:

We are pleased to present the Annual Report of the Funded Status of the South Dakota Retirement System (SDRS) for the fiscal year ended June 30, 2021.

As of June 30, 2021, SDRS is 105.5 percent funded and all the Board of Trustees' funding objectives have been met. This marks the twenty-sixth time out of the last thirty-one actuarial valuations that SDRS has been at least 100 percent funded on a Fair Value of Assets basis. A fully funded status is rare among statewide retirement plans – and is particularly noteworthy given the fixed member and employer contributions that are much less than the average. This has been achieved while providing benefits that generally meet the Board's adequacy goals. The July 2022 SDRS cost-of-living adjustment (COLA) will be 3.50 percent, the largest in SDRS' history.

The success of SDRS has been achieved through the disciplined management of the System by the Board of Trustees, the outstanding long-term success of the South Dakota Investment Council, and the ongoing support of all stakeholders, including the Executive and Legislative branches of state government and SDRS members. SDRS continues to be one of the most financially sound public retirement systems in the nation and is well-positioned to confront the challenges of the future.

SDRS strives to provide appropriate and equitable lifetime benefits that meet the Board's goals and can be funded by fixed, statutory member and employer contributions. SDRS' variable benefit features automatically adjust benefits based on the resources available and will result in SDRS remaining fully funded in most economic conditions. In addition, SDCL 3-12C-228 requires recommendations to the Legislature for corrective actions if economic conditions exhaust the automatic adjustments provided by the variable benefit features and acceptable funding conditions are not met. These two mechanisms are designed to work together to sustainably and efficiently provide the maximum benefits that can be prudently afforded within the fixed contribution budget.

The SDRS Board of Trustees will continue to analyze risks and evaluate SDRS sustainability under all economic conditions. SDRS remains fully committed to the SDRS hybrid defined benefit plan model with variable benefits that is fiscally responsible, efficient, and provides appropriate retirement income to our members within our resources.

We welcome your comments and questions after your review of this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Travis W. Almond".

Travis W. Almond
Executive Director

A handwritten signature in black ink, appearing to read "James Johns".

James Johns
Chair, SDRS Board of Trustees

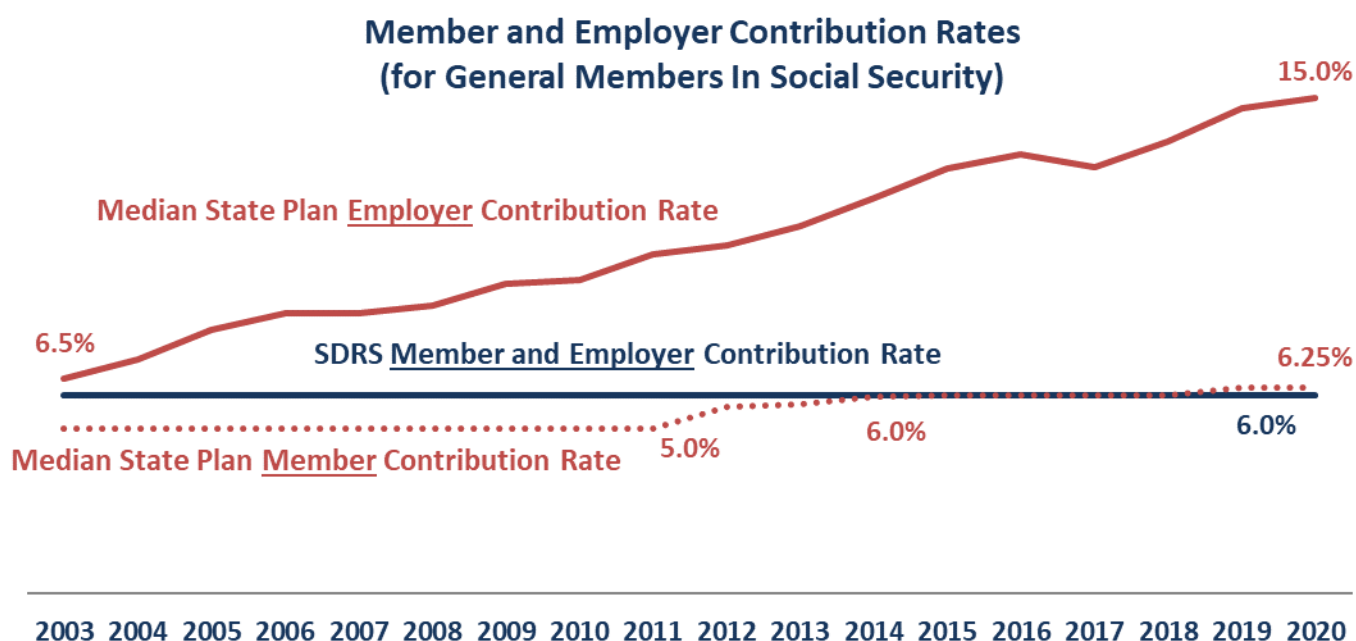
THE SDRS MODEL

SDRS' defined benefit pension model pays lifetime benefits at retirement based on a member's compensation and service. The expected costs to provide the benefits are determined using assumptions about future events including life expectancies, retirement ages, and the investment returns system assets will earn. To meet those expected costs, defined benefit plans are funded by member and employer contributions throughout members' careers.

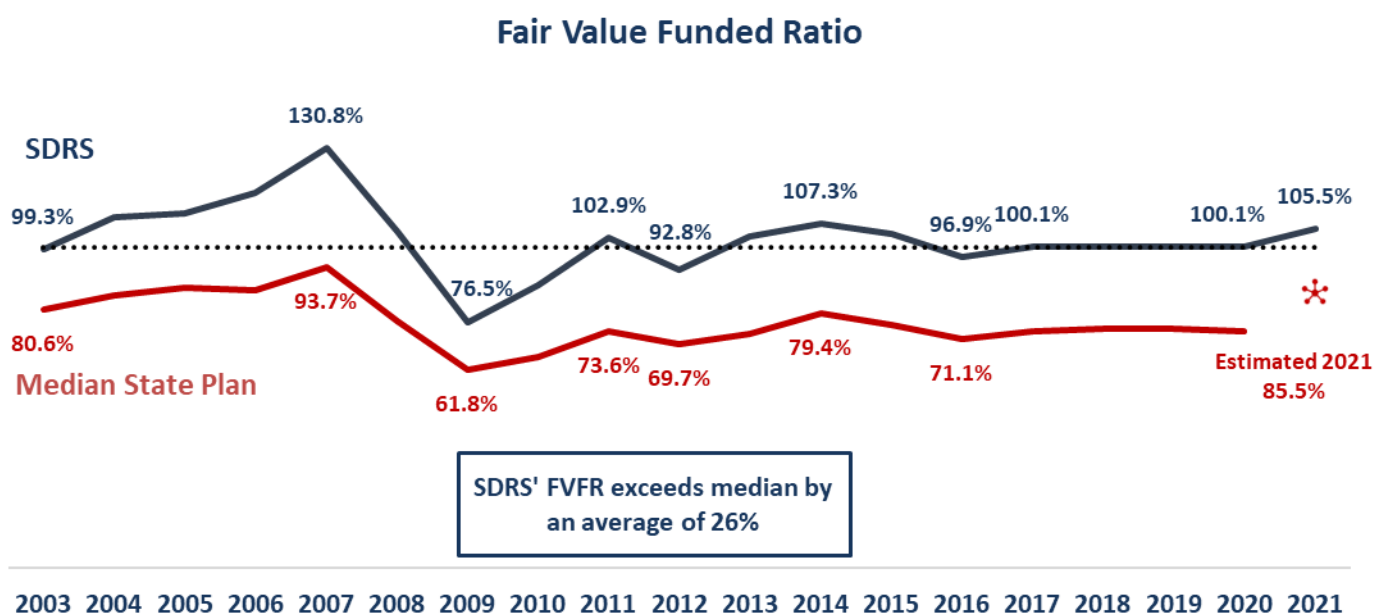
Most state retirement systems have fixed benefits and vary employer contributions when experience inevitably departs from the assumptions. Conversely, SDRS has operated with fixed contributions since 1974 and when experience departs from assumptions, SDRS benefits vary automatically. If experience is significantly worse than expectations, SDRS has explicit statutory funding thresholds that require corrections when not met.

The two following charts compare the effectiveness of the two approaches.

The first chart shows historical median member and employer contribution rates for large, public sector pension plans and for SDRS. This considers only plans covering general employees (not public safety or judicial) who are also covered by Social Security. Since 2003, the **median member contribution rate** has increased from 5 percent to 6.25 percent of pay. The **median employer contribution rate**, however, has more than doubled from 6.5 percent in 2003 to 15 percent of pay in 2020. During that same time, SDRS **member and employer contributions** have remained at 6 percent of pay. SDRS employer contributions are 40 percent of the median rate.



While median public sector contribution rates have escalated significantly, the median funded status has remained well below SDRS' full funded status. The second chart shows the Fair Value Funded Ratio for SDRS has exceeded the ratio for the median public sector plan by an average of 26 percent over the same time period. The Fair Value Funded Ratio is one measure of the soundness of a retirement system and is calculated as the ratio of the Fair Value of Assets to the Actuarial Accrued Liability. These results would be even more striking if the median funded ratios were based on the SDRS investment return assumption, which is currently 6.5 percent compared to a median rate of 7 percent for state plans.



Frequent media reports detail the struggles many public sector retirement plans face in addressing pension funding issues. Many plans have no pre-determined maximum level of required employer contribution or minimum funded ratios that would serve as a call for reform. In some states, stakeholders must determine each year if the situation is dire enough to begin what is often a painful public fight over pension reform. In many instances, delay in making reforms has resulted in continuing deterioration of the plan's funded status and a need for even greater reforms.

Without question, the outstanding long-term investment performance of the South Dakota Investment Council has been the primary factor in the funding success of SDRS. In addition, the fundamental SDRS approach of fixed contributions, variable benefits, and defined funding thresholds requiring corrective action recommendations has imposed an important funding discipline on SDRS and kept SDRS on sound financial footing.

SDRS FUNDED STATUS AS OF JUNE 30, 2021

FUNDING POLICY OBJECTIVES

The SDRS Board has adopted a Funding Policy that includes the following funding objectives:

- Fair Value Funded Ratio of 100 percent or greater.
- A fully funded System with no Unfunded Liabilities.
- Actuarially determined benefits that are variable and can be supported by fixed, statutory contributions that are equal to or greater than the minimum actuarial requirement to support benefits.

MEETING THE BOARD'S FUNDING OBJECTIVES

The 2021 actuarial valuation of SDRS confirms that all three of the Board's funding objectives have been met based on the full COLA and assumed future COLAs of 2.25 percent.

2021 LEGISLATIVE CHANGES

Legislation enacted in 2021 reduced the minimum SDRS COLA to 0 percent. The change prevents paying a COLA greater than inflation during periods of very low inflation. In addition, the lower minimum COLA expands the economic conditions under which SDRS can remain fully funded and sustainable without requiring corrective action recommendations that could include more disruptive and substantive benefit reductions.

Legislation enacted in 2021 also clarified and revised SDRS provisions regarding reemployment after retirement. The legislation clarified that a separation of service requires three consecutive months with no employment relationship regardless of the employment classification. Employers were also given more flexibility to rehire retirees in certain situations. Rehired members who were at least age 59 ½ at retirement and are rehired to work less than 1,250 hours in a fiscal year are not required to have a three-month separation of service at retirement. In addition, the reemployment after retirement provisions (contribution requirements, 15 percent benefit reduction, and COLA suspension) will not apply to retirees who are rehired to work less than 1,250 hours in a fiscal year.

No other substantive benefit changes were included in the June 30, 2021 actuarial valuation.

SDRS COLA

SDRS provides an annual COLA that increases benefits for retirees. The Board's objective is to provide a COLA that protects retirees from a loss of purchasing power due to inflation.

Legislation enacted in 2017 tied the COLA directly to the annual inflation rate and the available resources to pay for it. Legislation enacted in 2021 reduced the minimum SDRS COLA to 0 percent.

The COLA will be less than inflation only when it is not affordable, or inflation is extraordinarily high. However, it is anticipated that the SDRS COLA will meet the Board's objective and approximate the rate of inflation over time.

Based on the result of the June 30, 2020 actuarial valuation, the restricted maximum COLA for the July 2021 increase was 1.41 percent. Inflation for the prior year was 1.28 percent, less than the restricted maximum, resulting in a **July 2021 SDRS COLA of 1.28 percent**, equal to inflation.

Based on the result of the June 30, 2021 actuarial valuation, the full COLA range of 0 to 3.5 percent was affordable. However, inflation for the prior year was the highest in recent history at 5.92 percent. As a result, **the July 2022 SDRS COLA of 3.50 percent will be the highest SDRS has ever paid**, but this COLA will be significantly less than inflation for the prior year for the first time in many years.

As of July 2022, cumulative COLAs since retirement will be equal to or greater than inflation for 65 percent of SDRS retirees. The cumulative COLA for recent retirees (those retired in the last six years which represents 35 percent of SDRS retirees) will be less than inflation and fall short of the Board's objective. This is primarily a result of recent high inflation rates. The SDRS benefits for these retirees are 97 to 98 percent of the amounts that would have matched inflation since they retired. The Board will continue to closely monitor the COLA compared to inflation and, as part of its 2020 contingency planning discussed below, has placed a high priority on addressing any COLA shortfall if, and when, possible.

SDRS CONTINGENCY PLANNING

Beginning in December 2019 and continuing through 2020, the SDRS Board of Trustees engaged in a contingency planning exercise. The Board focused on planning for future periods of economic uncertainty. As a result, the Board has adopted **A System Guide to Planning for the Unexpected** which was developed to be used as a starting point for discussions if economic conditions prevent SDRS from reaching its Funding Policy Objectives and statutory funding requirements.

In addition, the planning guide identifies potential benefit improvement recommendations for consideration if the criteria in the Board's policy on benefit improvements is met.

A System Guide to Planning for the Unexpected can be found on the SDRS website at:

[Contingency Planning Document](#)

SDRS 2022 PROPOSED LEGISLATION

The SDRS Board of Trustees will submit the following bills for consideration during the 2022 Legislative Session:

- **SB 56:** An Act to revise certain provisions relating to the South Dakota Retirement System.
- **SB 57:** An Act to add gaming enforcement agents to Class B membership of the South Dakota Retirement System.

Details and descriptions of the proposed legislation can be found in the 2022 legislative summary on the SDRS website at:

[SDRS Proposed Legislation](#)

LINKS TO ADDITIONAL INFORMATION

More complete data on SDRS can be found on the SDRS website.

The **June 30, 2021 actuarial valuation report** with additional detail on the funded status of the system and fiscal year 2021 experience:

[SDRS June 30, 2021 Actuarial Valuation](#)

The **June 30, 2021 Annual Comprehensive Financial Report** with complete financial data on the system, fiscal year 2021 experience, and historical trend information:

[SDRS 2021 ACFR](#)

Material from the **December 2, 2021 SDRS Board of Trustees Meeting**, including presentations on the June 30, 2021 actuarial valuation results, demographic trends, and the fiscal year 2021 financial statements:

[SDRS December 2021 Board of Trustees Meeting Material](#)

Appendix A: Fiscal Year 2021 Highlights

Total System Membership	94,675
Active Contributing Members	41,305
Inactive Non-Contributing Members	22,047
Benefit Recipients	31,323

Fair Value of Assets	\$14.6 Billion
Actuarial Accrued Liability	\$13.9 Billion
Assumed Future COLAs	2.25%
Fair Value Funded Ratio	105.5%

Member and Employer Contributions	\$272.3 Million
Benefit Payments and Refunds	\$661.2 Million
Administrative Expenses	\$4.9 Million
Net Investment Income	\$2,672.0 Million

Minimum Statutory COLA	0.00%
Maximum Statutory COLA	3.50%
Prior Year Inflation	5.92%
July 2022 COLA	3.50%

The following exhibit presents a schedule of the annualized benefits payable as of July 1, 2021, by SDRS on a county-by-county basis.

Total SDRS Benefits Payable in South Dakota	\$ 568,358,687
Total SDRS Benefits Payable Outside of South Dakota	\$ 80,015,113
Total SDRS Benefits Payable	\$ 648,373,800

SDRS MISSION STATEMENT

To responsibly manage a financially sustainable system within fixed resources and prepare our members for retirement.

SDRS VISION

To be a model retirement system that is fully funded, delivers benefits that meet our long-term benefit goals, and provides members the foundation to achieve financial security during retirement.

SDRS LONG-TERM INCOME REPLACEMENT GOALS

Retirement Income from SDRS

Lifetime income from SDRS of at least 50 percent of Final Average Compensation (FAC) at normal retirement for career members with credited service of at least 30 years for Class A members, 25 years for Class B Public Safety members, and 20 years for Class B Judicial members.

Proportionate lifetime income from SDRS for members who participate in SDRS for less than a career.

Additional Member Savings

SDRS will educate members of the need for additional savings and will encourage members to accumulate personal savings of at least 100 percent of annual pay at retirement to provide retirement benefits in addition to those provided by SDRS and Social Security.

Total Retirement Income

Educate, advise, and encourage members to plan for retirement by establishing a total retirement income goal based on their unique circumstances and considering benefits available from SDRS, Social Security, and personal savings.



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