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

JANUARY 2025

South Dakota Retirement System
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SDRS Fundamental Principles

- **SDRS is funded by fixed, modest, statutory contribution rates. As a percent of total spending, South Dakota spends the least on pensions in the nation, less than 40% of the national average.**

- **SDRS is sustainably managed by the SDRS Board of Trustees within the limited resources provided by the fixed contribution rates:**
    - **The SDRS Cost of Living Adjustment (COLA) is annually limited to the affordable and sustainable percentage.**
    - **Corrective action recommendations are required if statutory funding thresholds are not met.**

- **SDRS exists to provide adequate and equitable lifetime retirement benefits for public employees in South Dakota, helping them achieve financial security in retirement.**

SDRS Fiscal Year 2024 Key Takeaways

- **SDRS is 100% funded as of June 30, 2024, and is expected to remain 100% funded in most economic conditions due to the variable SDRS COLA.**

- **The July 2025 COLA will be 1.71 percent, lower than recent inflation, but the maximum affordable on a sustainable, long-term basis considering current resources.**

- **SDRS' funded status has greatly benefited from the superior long-term investment results of the South Dakota Investment Council.**

- **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 9, 2025

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, 2024.

As of June 30, 2024, SDRS is 100.0 percent funded, and all the Board of Trustees' funding objectives have been met. This marks the twenty-ninth time out of the last thirty-four 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 – particularly noteworthy given that the SDRS fixed member and employer contributions are much less than the national average. This has been achieved while providing benefits that generally meet the Board's adequacy goals; however, recent SDRS cost-of-living adjustments (COLAs) have not kept pace with the recent historically high inflation levels.

SDRS's success 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 remains one of the nation's most financially sound public retirement systems and is well-positioned to confront future challenges.

SDRS strives to provide appropriate and equitable lifetime benefits that meet the Board's goals and can be funded by our fixed, statutory member and employer contributions. SDRS' variable benefit features automatically adjust benefits based on available resources, resulting in SDRS remaining fully funded in most economic conditions. The July 2025 SDRS COLA will be 1.71 percent, the maximum affordable COLA while remaining fully funded. 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 metrics are not met. These two mechanisms are designed 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 you review this report.

Sincerely,

Travis W. Almond
Executive Director

Eric Stroeder
Chair, SDRS Board of Trustees

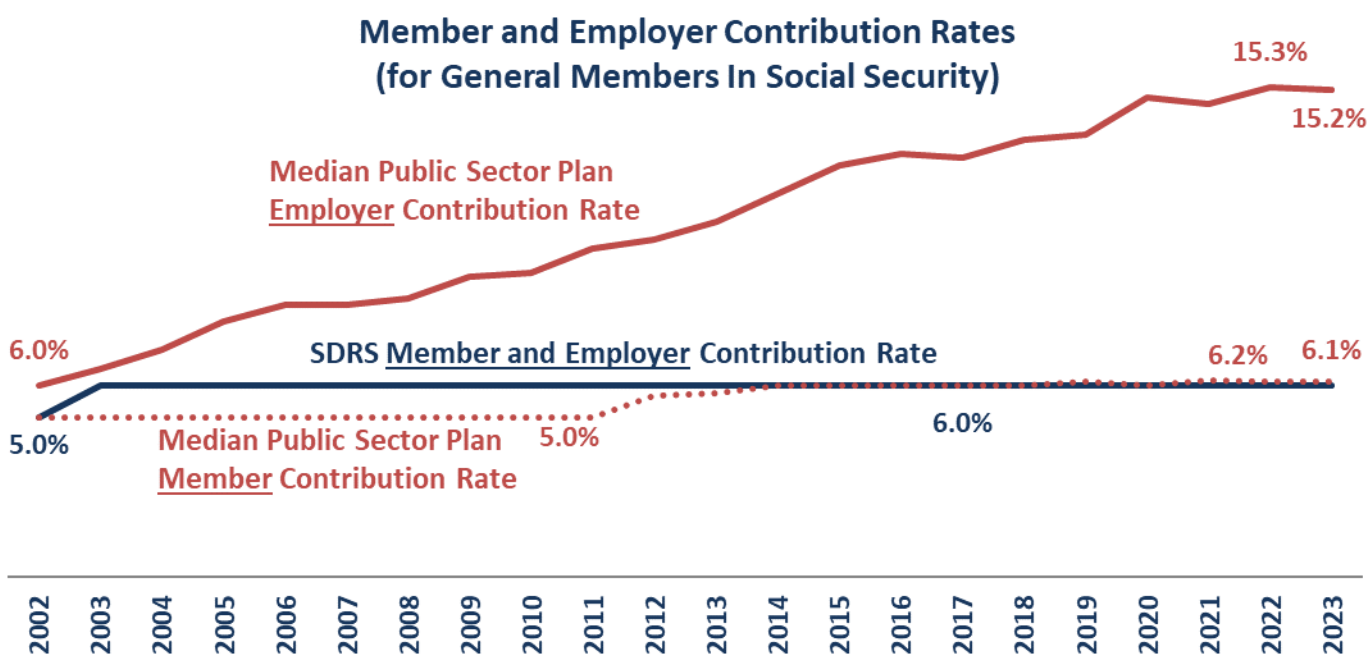
THE SDRS MODEL

Defined benefit pension plans pay 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 on system assets. 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 the experience is significantly worse than expected, SDRS has explicit statutory funding thresholds that require corrective action recommendations when not met.

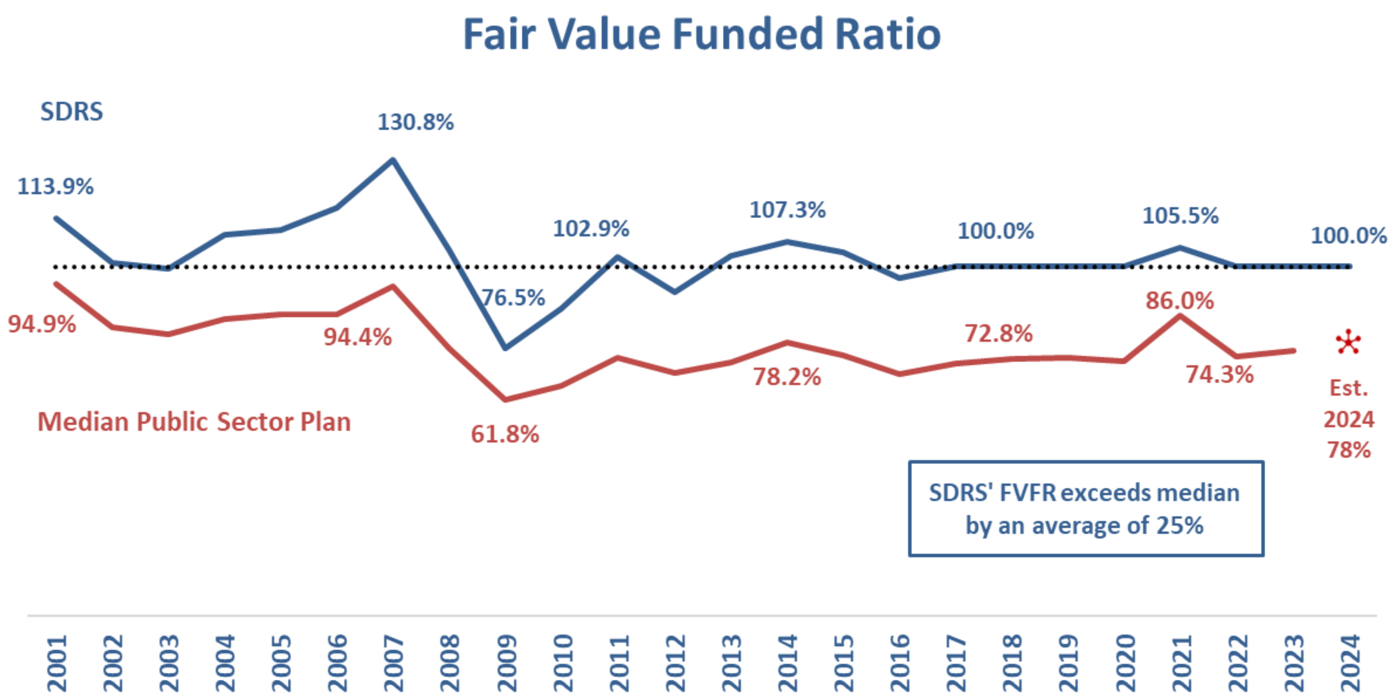
The two following charts compare the effectiveness of the two approaches.

The first chart shows historical median member and employer contribution rates for large, public sector pension plans and SDRS. This considers only plans covering general employees (not public safety or judicial) covered by Social Security. Since 2003, the **median member contribution rate** has increased from 5 percent to 6.1 percent of pay. However, the median employer contribution rate has more than doubled from 6.5 percent in 2003 to 15.2 percent of pay in 2023. During that same time, SDRS **member and employer contributions** have remained at 6 percent of pay. SDRS employer contributions are less than 40 percent of the median rate.



Median public sector plan contribution rates from NASRA Public Fund Survey, November 2024

While median public sector contribution rates have escalated significantly, the median funded status has remained well below SDRS' fully funded status. The second chart shows the Fair Value Funded Ratio for SDRS, which has exceeded the ratio for the median public sector plan by an average of 25 percent over the same period. The Fair Value Funded Ratio is a key measure of the soundness of a retirement system. It 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.



Median public sector funded ratios from Public Plans Database.

Frequent media reports detail many public sector retirement plans' struggles in addressing pension funding issues. Most plans' funded status improved during fiscal year 2021 due to investment returns significantly above long-term assumptions. Subsequently, the median funded status has deteriorated to 74 percent in fiscal year 2022 and 76 percent in fiscal year 2023. Early estimates for the median Fair Value Funded Ratio for fiscal year 2024 are approximately 78 percent.

The outstanding long-term investment performance of the South Dakota Investment Council has been the primary factor in SDRS's successful funding status. In addition, SDRS's fundamental approach of fixed contributions, variable benefits, and defined funding thresholds requiring corrective action recommendations has imposed an essential discipline on SDRS and kept it on sound financial footing.

SDRS FUNDED STATUS AS OF JUNE 30, 2024

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 variable benefits supported by fixed, statutory contributions equal to or greater than the minimum actuarial requirement to support benefits.

MEETING THE BOARD'S FUNDING OBJECTIVES

The 2024 actuarial valuation of SDRS confirms that all three of the Board's funding objectives have been met based on the restricted maximum COLA of 1.71 percent.

2024 LEGISLATIVE CHANGES

During the 2024 Legislative Session, no substantive changes to SDRS provisions were enacted.

Of note, during two of the last three Legislative Sessions, SDRS representatives opposed Legislation that would have significantly increased benefits paid to some or all SDRS retirees reemployed in full-time, SDRS-covered positions. Because SDRS is funded by fixed contributions and SDRS COLAs are reduced, if necessary, to remain fully funded, any unfunded increase in benefits for some members necessarily results in reduced future COLAs for all retirees and beneficiaries. Although the Legislation might have convinced a few retired members to return to the public workforce, it also would have provided widespread opportunities for active members at or near retirement eligibility to reap substantial windfalls and employers to reduce compensation costs, all at the expense of SDRS retirees. In addition, significant flexibility exists in rehiring SDRS retirees part-time without impacting SDRS benefits. SDRS urges Legislators to resist future efforts to divert SDRS resources for purposes inconsistent with our primary objective and fiduciary duty of providing adequate and equitable retirement income for all public employees.

SDRS COLA

SDRS provides an annual COLA that increases retiree benefits. The Board's objective is to protect retirees from losing 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, the SDRS COLA is anticipated to meet the Board's objective and approximate the inflation rate over time.

Based on the June 30, 2021 actuarial valuation results, 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, while the July 2022 SDRS COLA of 3.50 percent was the highest SDRS has ever paid, it was significantly less than inflation for the prior year for the first time in many years.

Based on the June 30, 2022 actuarial valuation results, the full COLA range was not affordable, and a restricted maximum COLA of 2.10 percent was effective for the July 2023 increase. Inflation for the prior year was at an even higher level of 8.75 percent, resulting in a July 2023 SDRS COLA of 2.10 percent, substantially less than inflation for the year.

Based on the June 30, 2023 actuarial valuation results, the full COLA range was not affordable, and a restricted maximum COLA of 1.91 percent was effective for the July 2024 increase. Inflation for the prior year was at 3.20 percent, resulting in a July 2024 SDRS COLA of 1.91 percent, less than inflation for the year.

Based on the June 30, 2024 actuarial valuation results, the full COLA range is again not affordable, and a restricted maximum COLA of 1.71 percent will be effective for the July 2025 increase. Inflation for the prior year was 2.49 percent, resulting in a July 2025 SDRS COLA of 1.71 percent, again less than inflation for the year.

As of July 2025, cumulative COLAs since retirement will equal or exceed cumulative inflation for approximately 19 percent of SDRS retirees and beneficiaries but will be less than inflation and fall short of the Board's objective for the other 81 percent. This is primarily a result of recent extraordinarily high inflation rates. Nevertheless, 59 percent of retirees receive a benefit that is at least 95 percent of the benefit they would receive if the SDRS COLA had matched inflation. Approximately 77 percent of retirees receive a benefit that is at least 90 percent of the benefit they would receive if the SDRS COLA had matched inflation. The Board will closely monitor the COLA compared to inflation and, as part of its contingency planning discussed below, has prioritized addressing any COLA shortfall if and when possible.

SDRS CONTINGENCY PLANNING

In 2024, the SDRS Board of Trustees reviewed and updated its contingency planning document, A **System Guide to Planning for the Unexpected**, initially adopted in 2020. The Board has focused on planning for future periods of economic uncertainty. It has adopted the document 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 that may be considered if the criteria in the Board's policy on benefit improvements are met.

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

Contingency Planning Document

LOW-DEFAULT-RISK OBLIGATION MEASURE

In compliance with the updated Actuarial Standards of Practice Statement No. 4 (ASOP 4), the June 30, 2024 actuarial valuation report includes a disclosure of a new liability measurement called a Low-Default-Risk Obligation Measure, or LDROM. The LDROM is a recalculation of the actuarial accrued liability using a discount rate derived from low-default-risk fixed-income securities, typically a lower discount rate than the assumed investment return, resulting in a higher liability figure. While the LDROM does not impact SDRS funding or accounting measurements, we expect organizations opposed to governmental defined benefit plans will use the LDROM to escalate criticisms of public pension plans. For SDRS, revised ASOP 4 directs actuaries to consider the impact investing in low-default-risk fixed-income securities would have on variable benefits, such as the SDRS COLA. As a result, the LDROM for SDRS is very similar to SDRS' funding measurements but is based on a lower, affordable COLA. For more details, please see the SDRS June 30, 2024 actuarial valuation report (link on page 8).

SDRS 2025 PROPOSED LEGISLATION

The SDRS Board of Trustees has submitted the following bills for consideration during the 2025 Legislative Session:

- **HB 1029:** An Act to update provisions of the South Dakota Retirement System.
- **HB 1030:** An Act to update the South Dakota Retirement System's member information protection provisions.
- **HB 1031:** An Act to update the South Dakota Retirement System's member identity verification procedures.
- **HB 1032:** An Act to update a reference to the Internal Revenue Code in South Dakota Retirement System statutes.

Details and descriptions of the proposed legislation can be found in the 2025 legislative summary on the SDRS website at:

SDRS 2025 Legislative Session Page

ADDITIONAL INFORMATION

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

The **June 30, 2024 actuarial valuation report** with additional detail on the funded status of the system and fiscal year 2024 experience and the **June 30, 2024 Annual Comprehensive Financial Report** with complete financial data on the system, fiscal year 2024 experience, and historical trend information can be found under the "Annual Reports" heading on the SDRS publications page at:

SDRS Publications

Material from the **December 11, 2024 SDRS Board of Trustees Meeting**, including presentations on the June 30, 2024 actuarial valuation results, demographic trends, and the fiscal year 2024 financial statements:

December 2024 SDRS Board Meeting Material

Appendix A: Fiscal Year 2024 Highlights

Total System Membership	**103,299**
Active Contributing Members	**42,873**
Inactive Non-Contributing Members	**26,307**
Benefit Recipients	**34,119**
Fair Value of Assets	**$14.9 Billion**
Actuarial Accrued Liability	**$14.9 Billion**
Assumed Future COLAs	**1.71%**
Fair Value Funded Ratio	**100.0%**
Member and Employer Contributions	**$335.5 Million**
Benefit Payments and Refunds	**$764.3 Million**
Administrative Expenses	**$5.4 Million**
Net Investment Income	**$856.1 Million**
Minimum Statutory COLA	**0.00%**
Maximum Statutory COLA	**1.71%**
Prior Year Inflation	**2.49%**
July 2025 COLA	**1.71%**

Appendix B: SDRS Benefits Payable by County

The following exhibit presents a schedule of the annualized benefits payable by SDRS on a county-by-county basis as of July 1, 2024.

County	Benefit Recipients	Annual Benefits	County	Benefit Recipients	Annual Benefits	County	Benefit Recipients	Annual Benefits
Aurora	129	$2,218,118	Fall River	349	$5,660,223	McPherson	84	$1,380,534
Beadle	559	$11,578,964	Faulk	137	$2,047,072	Meade	817	$16,842,250
Bennett	58	$938,434	Grant	219	$4,472,681	Mellette	65	$848,101
Bon Homme	347	$6,348,430	Gregory	184	$3,313,428	Miner	82	$1,778,811
Brookings	1,733	$48,597,544	Haakon	71	$1,210,828	Minnehaha	4,739	$116,983,325
Brown	1,422	$32,297,057	Hamlin	224	$3,908,415	Moody	213	$3,591,395
Brule	167	$3,701,305	Hand	120	$2,035,770	Oglala Lakota	21	$389,385
Buffalo	3	$56,163	Hanson	65	$1,216,030	Pennington	3,911	$93,164,904
Butte	365	$6,403,000	Harding	40	$582,873	Perkins	103	$1,564,421
Campbell	65	$1,077,549	Hughes	1,613	$46,422,774	Potter	122	$2,213,124
Charles Mix	261	$5,409,065	Hutchinson	279	$5,349,945	Roberts	294	$5,263,485
Clark	141	$2,201,090	Hyde	60	$735,132	Sanborn	101	$1,759,272
Clay	735	$20,384,837	Jackson	58	$1,065,224	Spink	458	$8,270,756
Codington	969	$24,017,119	Jerauld	88	$1,478,341	Stanley	271	$6,657,927
Corson	58	$1,151,810	Jones	41	$967,149	Sully	64	$1,043,888
Custer	428	$8,076,156	Kingsbury	250	$4,735,687	Todd	69	$1,376,600
Davison	650	$15,309,983	Lake	494	$11,342,622	Tripp	207	$3,769,519
Day	236	$4,271,867	Lawrence	1,144	$26,382,346	Turner	281	$5,115,921
Deuel	142	$2,385,084	Lincoln	526	$9,987,113	Union	376	$7,594,346
Dewey	119	$2,089,024	Lyman	112	$1,977,701	Walworth	240	$4,606,645
Douglas	99	$1,836,494	Marshall	207	$3,797,551	Yankton	1,027	$22,582,755
Edmunds	118	2,103,873	McCook	179	$3,710,101	Ziebach	28	$603,241

Total SDRS Benefits Payable in South Dakota	**$ 652,252,577**
Total SDRS Benefits Payable Outside of South Dakota	**$ 95,713,460**
Total SDRS Benefits Payable	**$ 747,966,037**

SDRS provides retirement, survivor, disability, and termination benefits for eligible employees of the state's participating public employers. Members include full-time employees of public schools, the State, the Board of Regents, city and county governments, and other public entities.

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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