



South Dakota Retirement System

Joint Appropriations Committee Hearing

January 2025



Overview

- SDRS provides reliable lifetime 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, 34% of the national average
 - As of July 2024, \$748M paid annually to 34,000 retirees & beneficiaries; **\$652M to current South Dakota residents**, benefiting members and local economies
 - Responsible funding on fixed contributions helps retain **SD's AAA credit rating**
- SDRS has 35 employees over eight primary divisions:
 - Executive
 - Finance
 - Audit
 - Member Services
 - Legal
 - IT Services
 - Communications
 - Actuarial



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 typical defined contribution plans for the same contribution*
 - **Variable COLA process** pays maximum sustainable benefits while remaining fully funded; July 2025 COLA will be 1.71%
 - **Fixed member and employer contribution rates** provide budgetary certainty for 508 participating employers

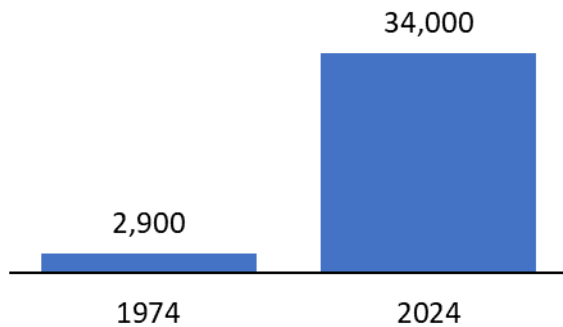
* Source: National Institute on Retirement Security: A Better Bang for the Buck 3.0, January 2022.



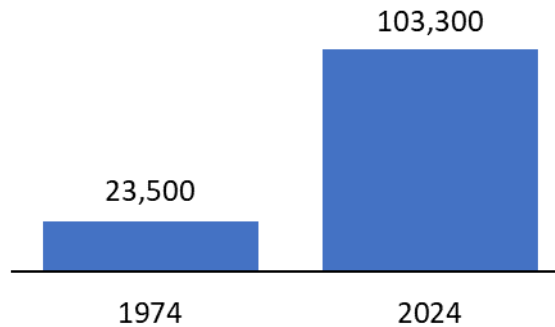
SDRS 50th Anniversary

Significant Growth Since Consolidation

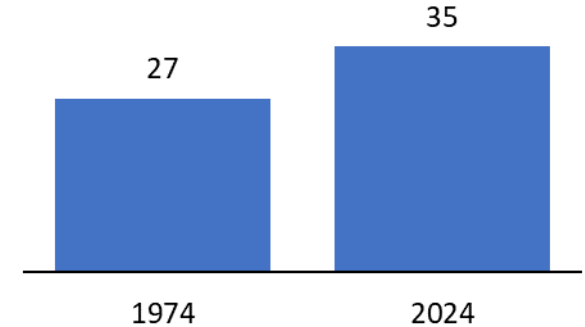
Benefit Recipients



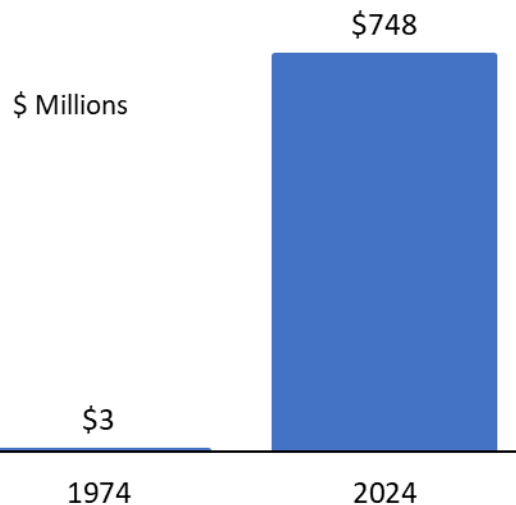
Total Membership



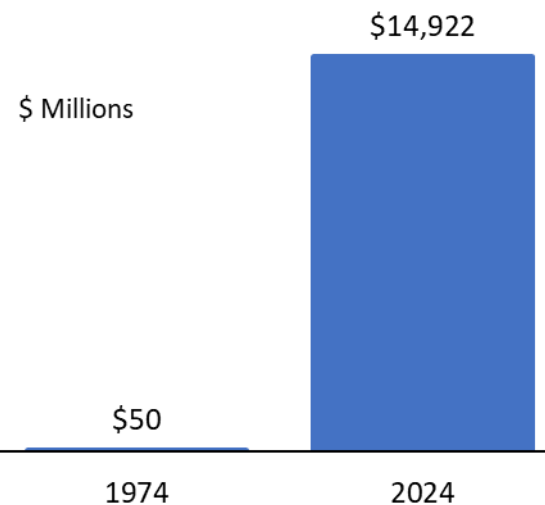
SDRS Employees



Annual Benefit Payments



SDRS Assets



Metrics as
of June 30



Organizational Changes/Restructuring

- Audit: **Expanded internal audit team** to broaden scope of review
- Communications: Provide **customized member and employer education** using various platforms
- IT Services department created, working with BIT to **leverage technology** through:
 - Member Services Center technology
 - Expanded member/employer self-service functionality
 - Improved use of SDRS data for audits, internal controls, providing valuable reports to employers



Recent/Upcoming IT Related Projects

- **Expanded self-service functionality** for members and employers through secure portals
- Ongoing **pension administration system upgrades**, contracted through BIT with internal staff coordinating
- Member Services Center **modernized call reception technology** to assist staff in handling incoming calls more efficiently:
 - Contracted with 3CLogic
 - Cost partially offset by discontinuing SDRS toll-free number
 - Funded through SDRS ongoing budget (no general funds)



Internal Staff Efficiencies and Performance Outcomes

- Workflow and Process Efficiencies:
 - **Member Services Center technology** launched
 - Expanded member/employer **self-service functionality**, reducing paperwork and data entry and simplifying employer reporting and member processes
 - Continual **pension administration system upgrades** to streamline operations and automate internal controls
 - **SharePoint sites** for staff and board. Staff site features internal SDRS policies and automated reports, simplifying audits and enhancing internal controls
- External review by CEM Benchmarking:
 - Review shows SDRS provides a high level of service at a low cost
 - SDRS total adjusted administrative cost per member was 36% less than peer group in FY 2023 report



Overtime, Recruiting/Retaining Difficulties, Unfilled Positions

- Overtime is rare – only 13.5 hours total in last four fiscal years
- Pre-retirement turnover is also rare – current employees' service:
 - 20 to 35+ years of service: 10
 - 10 to 19 years of service: 13
 - 0 to 9 years of service: 12
- Two terminations of employment and no retirements in FY 2024
- One termination of employment and one retirement to date in FY 2025
- All positions are currently filled



Unutilized FTE, Turnover, Long-term Vacancies (Page 2 of Budget Brief Detail)

- Unutilized FTEs were 0.61 in FY23 and 0.52 in FY24
 - Savings from unutilized FTEs in the past fulfilled termination payout obligations or remained undrawn from contributions
- Turnover is low
- Four SDRS employees are currently eligible for unreduced SDRS benefits; 10 will be eligible within five years, 12 will be eligible within 10 years



Proposed Budget Reductions/Increases (Pages 3-4 of Budget Brief Detail)

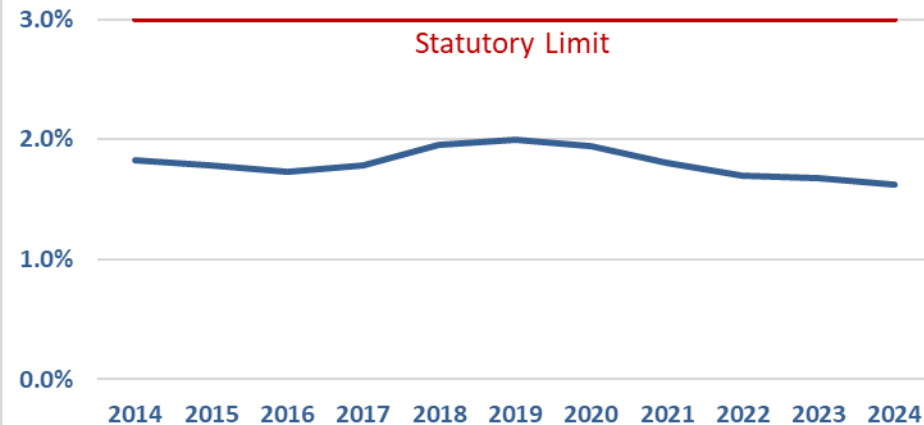
- **No general funds utilized**
- SDRS administrative expenses as a percent of contributions:
 - Limited by statute to 3%;
 - Limited by SDRS policy to 2%;
 - Actual expenses 1.8% or less since FY 2020
- No changes in FTEs or expenditure authority requested
- Current and recent technology initiatives directed at serving growing membership as efficiently as possible



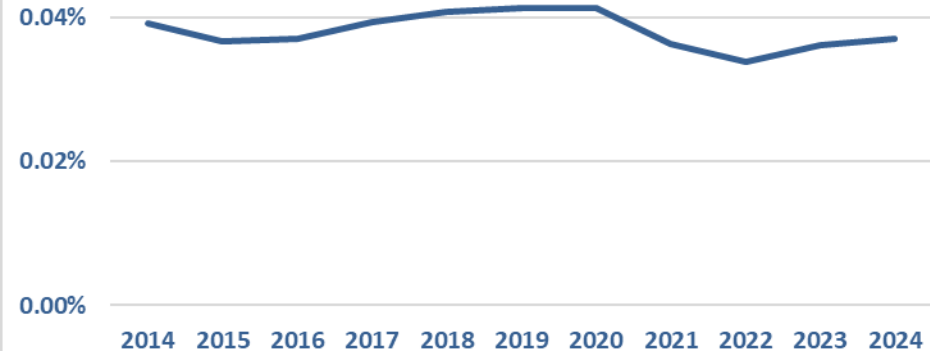
Administrative Costs and FTEs

(Page 4 of Budget Brief Detail)

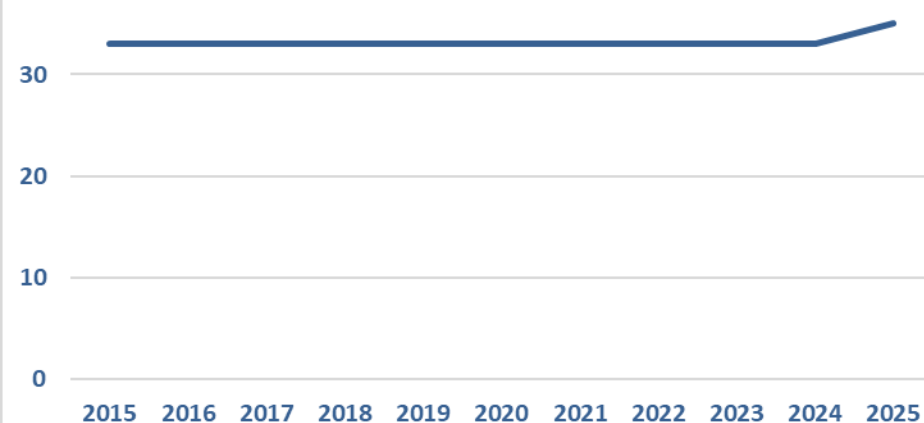
Administrative Costs as % of Contributions



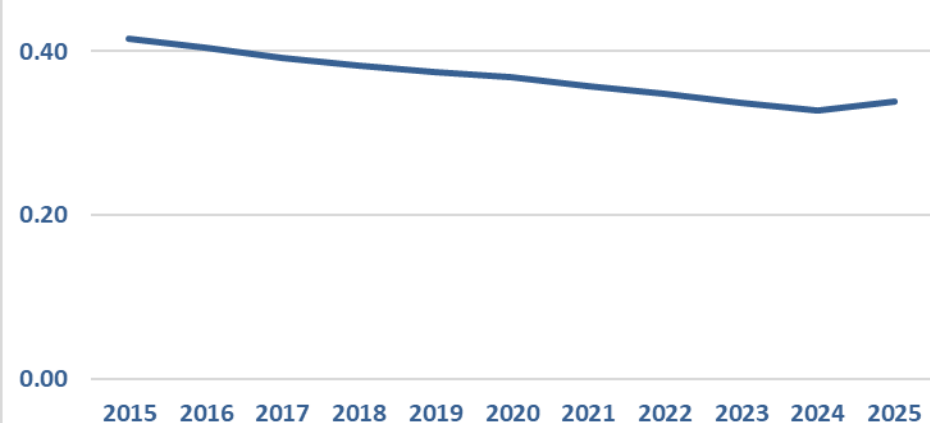
Administrative Costs as % of Assets



Budgeted FTEs



Budgeted FTEs per 1000 Members





Summary

- **No increase** in other fund expenditure authority requested
- No requested FTE increase
- Objective is to effectively serve SDRS' growing membership as efficiently as possible