# ANNUAL REPORT OF THE FUNDED STATUS OF THE SOUTH DAKOTA RETIREMENT SYSTEM TO THE GOVERNOR AND LEGISLATURE OF THE STATE OF SOUTH DAKOTA

JANUARY 2014

*South Dakota Retirement System*
*222 East Capitol Suite 8*
*PO Box 1098*
*Pierre, South Dakota 57501-1098*
*Toll-Free (888) 605-SDRS*
*Telephone (605) 773-3731*
*www.sdrs.sd.gov*

**South Dakota Retirement System**

January 14, 2014

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

Re: Annual Report of the Funded Status of the South Dakota Retirement System

With the June 30, 2013, actuarial valuation, the Board of Trustees took an unprecedented action to completely payoff the System's unfunded liabilities. For the first time in its history, SDRS is fully funded on both a market value basis and an actuarial value basis at 103.2 percent and 100.0 percent, respectively. This exceptional achievement was realized as a result of the conservative oversight of the Board of Trustees, the outstanding long-term success of the South Dakota Investment Council, and the ongoing support of the Executive and Legislative branches of state government and the SDRS membership. SDRS continues to be one of the most financially sound public employee retirement systems in the nation.

During 2013, the SDRS Board of Trustees also revised its Funding Policy Objectives to include an Actuarial Value Funded Ratio of 100 percent and a Market Value Funded Ratio of at least 100 percent. As of the June 30, 2013, actuarial valuation, SDRS meets both of these objectives.

For fiscal year 2013, the SDRS Trust Fund, under the management of the South Dakota Investment Council, produced investment returns of 19.5 percent on a time-weighted, gross of fees basis or 19.0 percent on a money-weighted, net of fees basis. The returns for the year exceeded the investment benchmark by more than 5 percent, generated nearly $1 billion in earnings above expectations, and exceeded the returns of most other funds by a wide margin. When 2013 results are released for all statewide plans, we anticipate that SDRS will remain among the best funded public plans nationally with a funded ratio approximately 25 percentage points higher than the averages for all statewide plans. This is more impressive considering that the SDRS investment return assumption is among the most conservative used by statewide plans. Conservative and prudent plan design, coupled with outstanding historical investment returns on the Trust Fund assets, has SDRS well-positioned to confront challenges in the future.

The enclosed information highlights the SDRS Mission Statement and provides an in-depth summary of the current funded status, investment and actuarial experience, comparative data, and initiatives of SDRS. Supplemental information concerning benefit payments, plan administrative cost, actuarially assumed investment returns of other statewide plans, and the South Dakota Cement Plant Retirement Fund is included in the appendices.

Throughout 2014, the SDRS Board of Trustees will continue to analyze risks and anticipated future experience, study long-term sustainability, and evaluate long-term benefit goals. SDRS remains fully committed to the fiscally responsible designs inherent in the SDRS hybrid defined benefit plan and strives to provide outstanding service to our membership at the lowest cost possible.

We welcome your comments and questions.

Sincerely,

Robert A. Wylie
Executive Director/Administrator

Elmer P. Brinkman
Chair of the Board of Trustees

## SDRS MISSION STATEMENT

*To plan, implement, and administer income replacement programs, and to encourage additional savings for retirement, all of which offer SDRS members and their families the resources and the opportunity to achieve financial security at retirement, death or disability by providing an outstanding, appropriate and equitable level of benefits.*

The Board of Trustees believes this mission is achievable with the resources available in a progressive working environment, by sound and efficient management, through superior investment performance and by exercising the fiduciary responsibility associated with the proper stewardship of member assets.

## LONG-TERM INCOME REPLACEMENT GOALS

**SDRS INCOME REPLACEMENT GOAL:**
Lifetime income replacement from SDRS resources of at least 55 percent of final average compensation for career employees in each membership class.

**RECOMMENDED MEMBER TOTAL INCOME REPLACEMENT GOAL:**
Lifetime income replacement of at least 85 percent of final average compensation, including income from SDRS, Social Security, and personal retirement savings of at least one time annual compensation at retirement.

## FUNDING POLICY CHANGES

During fiscal year, the SDRS Board of Trustees approved changes to the elements of the Funding Policy:

- The Funded Ratio Objectives were increased from 95% to 100% or greater for the Market Value Funded Ratio and 100% for the Actuarial Value Funded Ratio. Funding objectives now include maintaining a fully funded system and an objective that statutorily fixed contributions meet or exceed the Normal Cost, expenses and payment of Unfunded Liabilities over a period not to exceed 20 years when Unfunded Liabilities exist.

- The Funding Policy now specifies that the Actuarial Value of Assets will be set to the Market Value of Assets if no Cushion exists for five consecutive years.

- The Policy Regarding Consideration of Benefit Improvements was changed to specify that after consideration of the benefit improvement, the Market Value Funded Ratio must be at least 120%.

- The Funding Policy also now details that any reporting to the Governor and Retirement Laws Committee required by SDCL 3-12-122 will include an analysis of the conditions required for improvement of the funded status and recommendations for future changes.

The revised Funding Policy is shown in Appendix D.

## FUNDING AND ACTUARIAL METHOD CHANGES

During 2013, the SDRS Board of Trustees approved a change in the actuarial method. As of June 30, 2013, a transfer of $634 million was made from the Cushion to the Actuarial Value of Assets in order to eliminate the Frozen Unfunded Actuarial Accrued Liability. As a result, the Actuarial Value Funded Ratio is 100% and meets the revised Funding Policy Objective, and the statutorily required Employer and Member Contributions meet the actuarially required contributions and will build the Cushion and Reserve to protect the System against future unfavorable experience.

## SDRS FUNDED STATUS REPORT

### JUNE 30, 2013 MEASURES OF ACTUARIAL SOUNDNESS

In the 2013 actuarial valuation, two important measures of actuarial soundness have been calculated in evaluating the actuarial soundness and funding progress of SDRS. They are the Funded Ratio and Funding Period.

The Actuarial Accrued Liability (AAL) is the present value of all benefits currently being paid and expected to be paid in the future, to all members, less the present value of future Normal Cost contributions. The Actuarial Value Funded Ratio is equal to the Actuarial Value of Assets divided by the AAL. The Actuarial Value Funded Ratio is 100.0% as of June 30, 2013. The Market Value Funded Ratio is equal to the Market Value divided by the AAL. The Market Value Funded Ratio is 103.2% as of June 30, 2013.

The Funding Period measures the length of time required to amortize Unfunded Actuarial Accrued Liabilities as well as pay the ongoing Normal Costs, interest charges, and expenses considering the fixed statutory contributions. A shorter Funding Period results in a more favorable actuarial measure. As of June 30, 2013, the Unfunded Actuarial Accrued Liability is $0 and no Funding Period is applicable.

The SDRS Actuarial Value Funded Ratio:

- Was 40% in 1973.
- Has been over 90% each year since 1988.
- Had consistently been over 95% since 1997.
- Dropped from 97% in 2008 to 92% in 2009 as a result of the significant asset losses suffered in 2008 and 2009 due to the Great Recession; however, asset gains in 2010 and 2011 and corrective actions in 2010 restored the Funded Ratio to over 95% in 2010 and 2011.
- Decreased to 93% due to the demographic and economic assumption changes in 2012.
- Increased to 100% due to the change in funding method in 2013.

The SDRS Market Value Funded Ratio:

- Was 40% in 1973.
- Has been over 75% each year since 1984.
- Has been over 100% in 19 of the last 23 actuarial valuations.

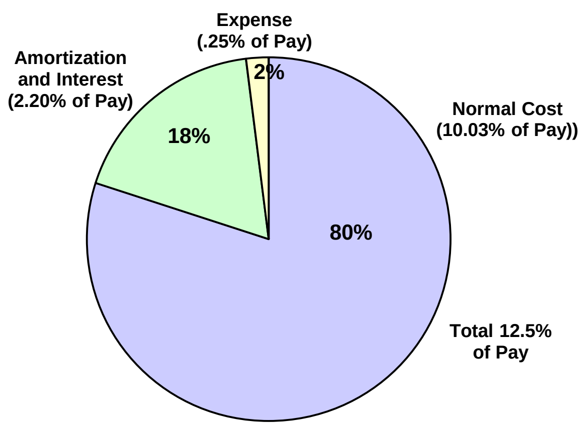
- Decreased to 76% as a result of the significant asset losses suffered in 2008 and 2009 due to the Great Recession; however, asset gains in 2010, 2011, and 2013 and corrective actions in 2010 helped to increase the Funded Ratio to 103% as of June 30, 2013.

## DISTRIBUTION OF FUNDING REQUIREMENTS

As a result of the change in funding method adopted by the SDRS Board of Trustees, SDRS has no Unfunded Actuarial Accrued Liability as of June 30, 2013. Current statutorily required Employer and Member Contributions fund the Normal Cost and expenses of the system and will build the Cushion and Reserve to protect the System against future unfavorable experience.

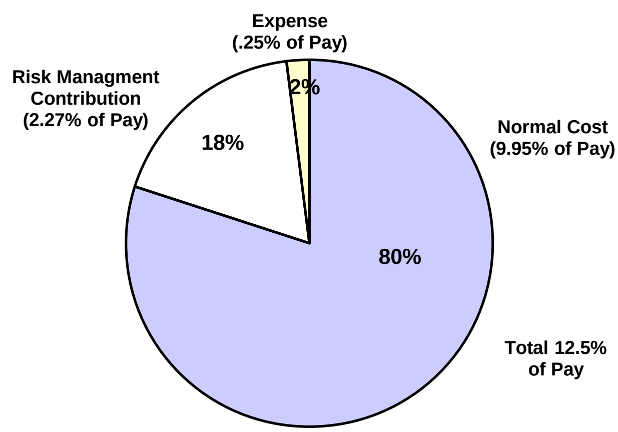
For fiscal year 2013, anticipated fixed statutory contributions will be sufficient to pay the Normal Cost and expenses and contribute approximately 2.27% of pay to the Cushion and Reserve.

**2012 Fiscal Year**




Funding Policy Contribution Rate: 12.5% of Pay
Total Anticipated Contribution Rate: 12.5% of Pay

**2013 Fiscal Year**




Funding Policy Contribution Rate: 10.2% of Pay
Total Anticipated Contribution Rate: 12.5% of Pay

## FISCAL YEAR 2013 SDRS EXPERIENCE

The SDRS money-weighted investment return based on the Market Value of Assets was 19.0% after investment expense (19.5% on a time-weighted basis before investment expense). This return was significantly more than the assumed annual rate of return of 7.25%, resulting in an actuarial investment gain of $908M.

| | |
|---|---|
| Actual Investment Return | $ 1,467M |
| Less Expected Return | -560M |
| Actuarial Investment Gain/(Loss)[(1)] | $ 908M |

(1) Sum adjusted by $1 million due to rounding

All SDRS investment gains and liability gains and losses are allocated to the Reserve for Funding of Long-Term Benefit Goals over five years. Actuarial investment losses are allocated to the Reserve immediately.

**FUNDED STATUS COMPARISONS**

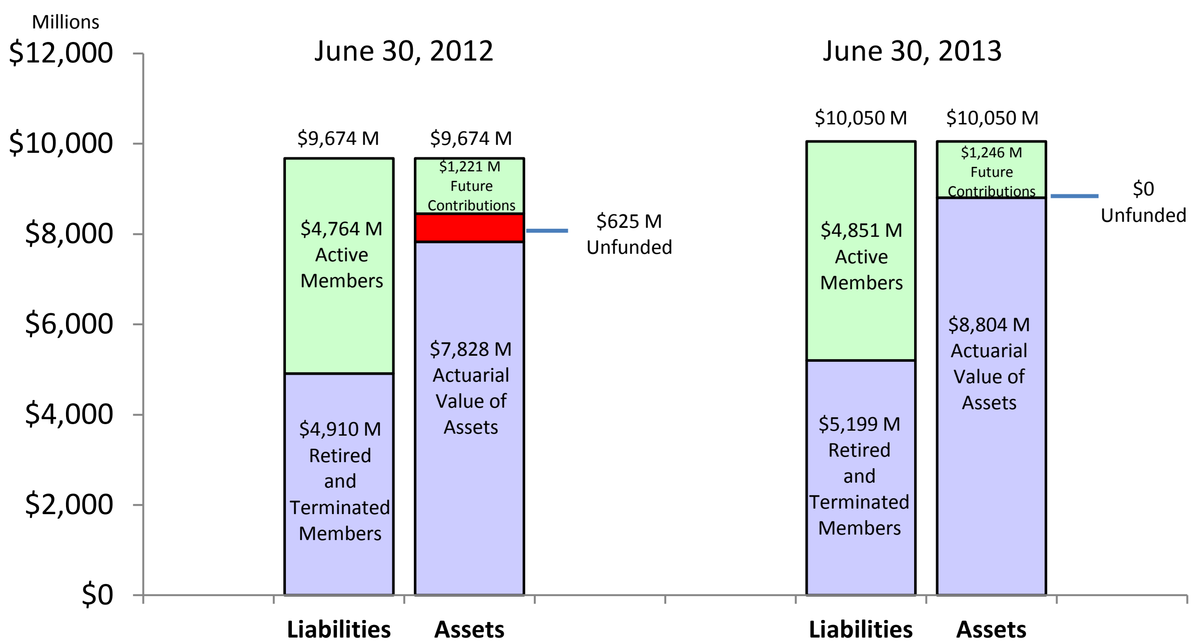
The long-term experience of SDRS has been very favorable, resulting in a funded status that exceeds virtually all other statewide public retirement systems.

| | June 30, 2012 | | June 30, 2013 | |
|---|---|---|---|---|
| | SDRS | Average* | SDRS | Average* |
| Funded Ratio (Actuarial Value of Assets) | 93% | 72% | 100% | 72% |
| Funded Ratio (Market Value of Assets) | 93% | 69% | 103% | 76% |

*2012 averages from Wilshire Associates State Retirement Plan Funding Report for statewide public systems. 2013 averages estimated by Buck Consultants.

**SDRS LIABILITIES AND RESOURCES**

Current SDRS members are projected to receive future benefits from SDRS that have a present value of $10.1B. Of that amount, 52% is attributed to current retirees and terminated vested members and 48% is attributed to current active members. SDRS has existing assets of $8.8B at Actuarial Value and also $9.1B at Market Value to offset those future costs.




As a result of the transfer of $634 million from the Cushion to the Actuarial Value of Assets, the Unfunded Actuarial Accrued Liability decreased from $625M in fiscal year 2012 to $0 in fiscal year 2013. Demographic changes in the underlying data also caused the Normal Cost rate to decrease from 10.03% to 9.95%. The fixed statutory contributions are sufficient to pay the Normal Cost (the cost of benefits accruing during the current year) and expenses and will contribute approximately 2.27% of pay to the Cushion and Reserve.

The volatile investment climate over the last several years has impacted the SDRS Cushion, which has varied from $2.1 billion in 2007 to negative $1.1 billion in 2009. As of June 30, 2013, $634 million was transferred from the Cushion to the Actuarial Value of Assets to eliminate the Unfunded Actuarial Accrued Liability in accordance with the Board of Trustees' revised Funding Policy Objectives. As of June 30, 2013, the Cushion is $282 million.

**FUNDED STATUS SUMMARY**

The prudent management of SDRS combined with the outstanding investment performance of recent years has allowed SDRS to emerge from the Great Recession in a very strong position. As of June 30, 2013, the Actuarial Value Funded Ratio is 100.0%, a level not previously reached in SDRS history, and the Market Value Funded Ratio is 103.2%. In addition, due to the elimination of the Unfunded Actuarial Accrued Liability, statutorily fixed Member and Employer Contributions are sufficient to fund the Normal Cost and expenses of the System and provide additional contributions that will build the Cushion and Reserve to protect the System against future unfavorable experience. If future adverse experience generates a new Unfunded Actuarial Accrued Liability, the additional contributions will be available to amortize the Unfunded Liability.

With a Market Value Funded Ratio of 103.2% and a Market Value of Assets of $9.1 billion, SDRS remains in actuarial balance and is a financially solid retirement system.

## SDRS INITIATIVES

During fiscal year 2013, the Board of Trustees continued its comprehensive review of SDRS including:

- Consideration of long-term benefit goals and fiscally sustainable benefit designs
- Comprehensive review of economic and demographic actuarial assumptions
- Long-term modeling of asset and liability experience under anticipated as well as unanticipated conditions
- Analysis and assessment of risks facing SDRS and its stakeholders

The reviews of recent investment performance, actuarial assumptions, and anticipated asset and liability experience have been completed and resulted in significant changes to the actuarial assumptions. The review of benefit designs led to proposed legislation regarding disability benefits and certain survivor benefits that are described below. The consideration of long-term benefit goals, fiscally sustainable benefit designs, and the analysis of risks facing SDRS and its stakeholders will continue in 2014.

## SDRS 2014 LEGISLATION

The SDRS Board of Trustees will submit the following bills for consideration during the 2014 legislative session:

- A bill to allow the surviving spouse of a pre-retirement member who is currently not eligible for a benefit until age 65 to elect to begin a benefit as early as age 55 with an actuarial reduction
- A bill to restructure the disability benefits and certain benefits payable upon death to provide equitable benefits, simplify administration and increase member understanding of benefits
- A technical corrections and clarification bill to revise, convert and clarify provisions in South Dakota Codified Law related to the definition of Penitentiary Correctional Staff

See page 14 for legislation related to the Cement Plant Retirement Fund.

# Appendix A

## SDRS BENEFITS

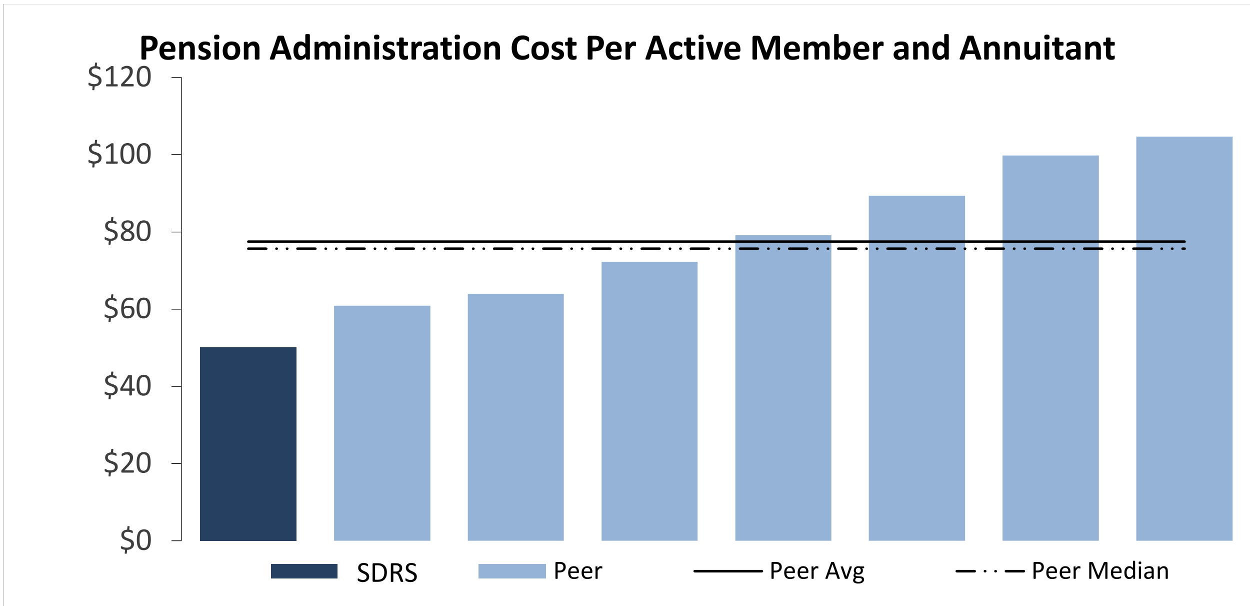
The following exhibit presents a schedule of the annualized benefits payable as of July 1, 2013, by SDRS on a county-by-county basis.

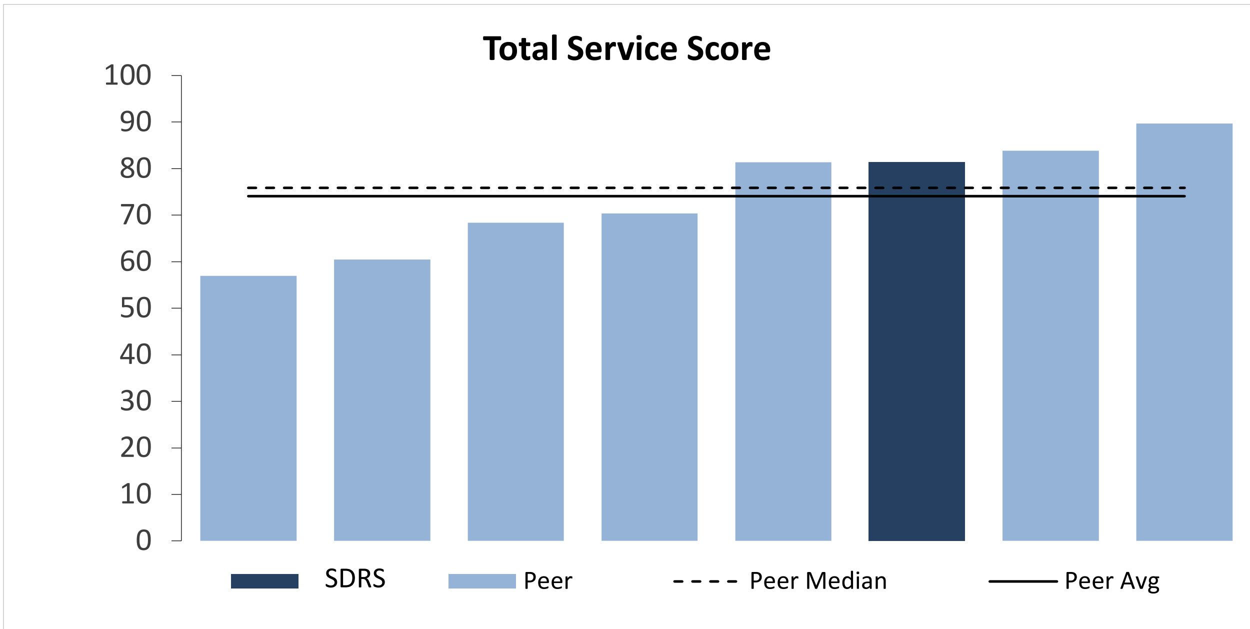
| County | Annual Benefits | County | Annual Benefits | County | Annual Benefits |
|---|---|---|---|---|---|
| Aurora | $ 1,375,763 | Fall River | $ 3,204,368 | McPherson | $ 642,303 |
| Beadle | $ 7,629,879 | Faulk | $ 1,252,486 | Meade | $ 8.264.250 |
| Bennett | $ 555,322 | Grant | $ 2,733,854 | Mellette | $ 494,036 |
| Bon Homme | $ 3,863,664 | Gregory | $ 1,853,141 | Miner | $ 1,018,680 |
| Brookings | $ 26,316,020 | Haakon | $ 612,724 | Minnehaha | $ 60,020,862 |
| Brown | $ 18,413,386 | Hamlin | $ 2,021,064 | Moody | $ 2,143,852 |
| Brule | $ 1,835,603 | Hand | $ 1,393,705 | Pennington | $ 51,507,791 |
| Buffalo | $ 33,129 | Hanson | $ 531,298 | Perkins | $ 1,105,066 |
| Butte | $ 3,465,700 | Harding | $ 233,662 | Potter | $ 1,496,696 |
| Campbell | $ 655,163 | Hughes | $ 27,590,975 | Roberts | $ 3,292,842 |
| Charles Mix | $ 3,549,096 | Hutchinson | $ 3,429,300 | Sanborn | $ 930,840 |
| Clark | $ 1,376,817 | Hyde | $ 546,998 | Shannon | $ 226,560 |
| Clay | $ 12,215,213 | Jackson | $ 787,991 | Spink | $ 5,004,558 |
| Codington | $ 13,323,793 | Jerauld | $ 662,509 | Stanley | $ 3,495,468 |
| Corson | $ 530,630 | Jones | $ 567,803 | Sully | $ 560,834 |
| Custer | $ 4,864,301 | Kingsbury | $ 2,035,956 | Todd | $ 945,477 |
| Davison | $ 9,193,709 | Lake | $ 6,699,912 | Tripp | $ 2,467,643 |
| Day | $ 2,879,860 | Lawrence | $ 14,158,310 | Turner | $ 2,658,423 |
| Deuel | $ 1,125,646 | Lincoln | $ 5,002,661 | Union | $ 4,391,309 |
| Dewey | $ 1,061,164 | Lyman | $ 1,183,979 | Walworth | $ 3,193,262 |
| Douglas | $ 1,029,259 | Marshall | $ 2,243,139 | Yankton | $ 12,300,777 |
| Edmunds | $ 1,464,356 | McCook | $ 1,758,000 | Ziebach | $ 182,936 |

| | |
|---|---|
| **Total SDRS Benefits Paid in South Dakota** | **$ 363,605,773** |
| **Total SDRS Benefits Paid Outside of South Dakota** | **$ 47,073,229** |
| **Total SDRS Benefits** | **$ 410,679,002** |

# Appendix B

The international benchmarking firm, CEM, annually measures and compares the costs and quality of services provided by public employee retirement systems. The graphics below show the CEM comparison of costs and service for SDRS and a peer universe of statewide retirement systems with less than 100,000 members. Based on the CEM information, SDRS administrative costs are the lowest in the peer group while providing above average service to the membership.



# Appendix C

## INVESTMENT RETURN ASSUMPTIONS OF STATEWIDE RETIRMENT SYSTEMS

The following chart presents the most recently published investment return assumptions for statewide retirement systems. The information was taken from the National Association of State Retirement Administrators (NASRA) website. Systems with an investment return assumption lower than SDRS (a more conservative assumption) are highlighted.

| System/Fund | Latest Available Nominal Investment Return Assumption | System/Fund | Latest Available Nominal Investment Return Assumption |
|---|---|---|---|
| Alabama ERS | 8.00% | Missouri State Employees | 8.00% |
| Alabama Teachers | 8.00% | Missouri Teachers | 8.00% |
| Alaska PERS | 8.00% | Montana PERS | 7.75% |
| Alaska Teachers | 8.00% | Montana Teachers | 7.75% |
| Arizona Public Safety Personnel | 8.00% | Nebraska Schools | 8.00% |
| Arizona SRS | 8.00% | Nevada Police Officer and Firefighter | 8.00% |
| Arkansas PERS | 8.00% | Nevada Regular Employees | 8.00% |
| Arkansas Teachers | 8.00% | New Hampshire Retirement System | 7.75% |
| California PERF | 7.50% | New Jersey PERS | 7.90% |
| California Teachers | 7.50% | New Jersey Police & Fire | 7.90% |
| Chicago Teachers | 8.00% | New Jersey Teachers | 7.90% |
| City of Austin ERS | 7.75% | New Mexico PERF | 7.75% |
| Colorado Affiliated Local | 7.50% | New Mexico Teachers | 7.75% |
| Colorado Fire & Police Statewide | 7.50% | New York City ERS | 7.50% |
| Colorado Municipal | 8.00% | New York City Teachers | 8.00% |
| Colorado School | 8.00% | New York State Teachers | 8.00% |
| Colorado State | 8.00% | North Carolina Local Government | 7.25% |
| Connecticut SERS | 8.00% | North Carolina Teachers and State Employees | 7.25% |
| Connecticut Teachers | 8.50% | North Dakota PERS | 8.00% |
| Contra Costa County | 7.25% | North Dakota Teachers | 8.00% |
| DC Police & Fire | 6.50% | NY State & Local ERS | 7.50% |
| DC Teachers | 6.50% | NY State & Local Police & Fire | 7.50% |
| Delaware State Employees | 7.50% | Ohio PERS | 8.00% |
| Denver Employees | 8.00% | Ohio Police & Fire | 8.25% |
| Denver Public Schools | 8.00% | Ohio School Employees | 7.75% |
| Duluth Teachers | 8.00% | Ohio Teachers | 7.75% |
| Fairfax County Schools | 7.50% | Oklahoma PERS | 7.50% |
| Florida RS | 7.75% | Oklahoma Teachers | 8.00% |
| Georgia ERS | 7.50% | Oregon PERS | 7.75% |
| Georgia Teachers | 7.50% | Pennsylvania School Employees | 7.50% |
| Hawaii ERS | 7.75% | Pennsylvania State ERS | 7.50% |
| Houston Firefighters | 8.50% | Phoenix ERS | 8.00% |
| Idaho PERS | 7.00% | Rhode Island ERS /1 | 7.50% |
| Illinois Municipal | 7.50% | Rhode Island Municipal /1 | 7.50% |
| Illinois SERS | 7.75% | San Diego County | 8.00% |
| Illinois Teachers | 8.00% | San Francisco City & County | 7.58% |
| Illinois Universities | 7.75% | South Carolina Police | 7.50% |
| Indiana PERF | 6.75% | South Carolina RS | 7.50% |
| Indiana Teachers | 6.75% | South Dakota Retirement System | 7.25% / 7.50% |
| Iowa PERS | 7.50% | St. Louis School Employees | 8.00% |
| Kansas PERS | 8.00% | St. Paul Teachers | 8.00% |
| Kentucky County | 7.75% | Texas County & District | 8.00% |
| Kentucky ERS | 7.75% | Texas ERS | 8.00% |

| System/Fund | Latest Available Nominal Investment Return Assumption | System/Fund | Latest Available Nominal Investment Return Assumption |
|---|---|---|---|
| Kentucky Teachers | 7.50% | Texas LECOS | 8.00% |
| LA County ERS | 7.60% | Texas Municipal | 7.00% |
| Louisiana SERS | 8.00% | Texas Teachers | 8.00% |
| Louisiana Teachers | 8.00% | TN Political Subdivisions | 7.50% |
| Maine Local | 7.25% | TN State and Teachers | 7.50% |
| Maine State and Teacher | 7.25% | Utah Noncontributory | 7.50% |
| Maryland PERS | 7.70% | Vermont State Employees | 8.10% |
| Maryland Teachers | 7.70% | Vermont Teachers | 7.90% |
| Massachusetts SERS | 8.00% | Virginia Retirement System | 7.00% |
| Massachusetts Teachers | 8.00% | Washington LEOFF Plan 1 | 7.90% |
| Michigan Municipal | 8.00% | Washington LEOFF Plan 2 | 7.90% |
| Michigan Public Schools | 8.00% | Washington PERS 1 | 7.90% |
| Michigan SERS | 8.00% | Washington PERS 2/3 | 7.90% |
| Minnesota PERF | 8.00% | Washington School Employees Plan 2/3 | 7.90% |
| Minnesota State Employees | 8.00% | Washington Teachers Plan 1 | 7.90% |
| Minnesota Teachers | 8.00% | Washington Teachers Plan 2/3 | 7.90% |
| Mississippi PERS | 8.00% | West Virginia PERS | 7.50% |
| Missouri DOT and Highway Patrol | 8.25% | West Virginia Teachers | 7.50% |
| Missouri Local | 7.25% | Wisconsin Retirement System | 7.20% |
| Missouri PEERS | 8.00% | Wyoming Public Employees | 7.75% |

# Appendix D

## SDRS Funding Policy

| **Elements** | | | |
|---|---|---|---|
| **Funding Objectives**<br>(Discussed at the Quadrennial Funding Study presentations in 1999 and 2002, and formally adopted April 2006 and revised September 2013) | **Establishment of Cushion and Reserve**<br>(The Reserve for Funding of Long-Term Benefit Goals, adopted in 1995 and later revised in 1998, 2001 and 2013) | **Policy Regarding Consideration of Benefit Improvements**<br>(Adopted in 2004 and revised in 2013) | **Statutory Conditions That Would Require Corrective Action**<br>(SDCL 3-12-122, refined during 2004 Legislative Session) |
| • Funded Ratios (Assets ÷ Actuarial Accrued Liabilities)<br>o Based on Market Value of Assets – 100% or greater<br>o Based on Actuarial Value of Assets – 100%<br><br>• Ratio of Market Value of Assets to Actuarial Value of Assets<br>o Exceeds 100%, which results in a Cushion<br><br>• Maintain a fully funded system<br>o No Unfunded Liabilities under Entry Age Normal Cost method<br>o If future Unfunded Liabilities created because of unfavorable experience, fully fund over a period not to exceed 20 years<br><br>• Statutorily fixed contributions meet or exceed the actuarially required contribution each year<br>o Normal Cost plus expenses when System is fully funded<br>o Includes payment of Unfunded Liabilities over a period not to exceed 20 years if System not fully funded | • Cushion<br>o Excess of Market Value of Assets over Actuarial Value<br>o Captures all net favorable experience<br><br>• Actuarial Value of Assets<br>o asset value if all assumptions met<br>o minimizes volatility in actuarial measures<br>o limited to 80-120% of market value of assets<br>o set to market value if no Cushion for five consecutive years<br><br>• Reserve<br>o Delays recognition of asset gains (and liability experience gains/losses) over five years, but recognizes asset losses immediately<br><br>• Both Cushion and Reserve provide resources to:<br>o Protect SDRS during times of unfavorable experience, and<br>o Pre-fund benefit improvements | • After consideration of the expense of the benefit improvement the Market Value Funded Ratio must be at least 120%<br><br>• In addition, the following guidelines must be satisfied:<br>o Reserve is sufficient to fully fund the present value of the benefit improvement<br>o After consideration of the recommended benefit improvement all funding objectives must still be met<br><br>• Proposed benefit improvement must be consistent with both the Board's long-term benefit goals and public policy with regard to retirement practices | • Funded status report to Governor and Retirement Laws Committee (RLC) if any of the following exists:<br>o Contributions not sufficient to fund current benefit structure<br>o Funded Ratio (based on Market or Actuarial Value) less than 80%<br>o Market Value of Assets less than 90% of the Actuarial Value of Assets<br><br>The report shall include an analysis of the conditions required for an improvement of the funded status of the system and recommendations for the circumstances and timing for any future benefit changes, contribution changes, or changes in actuarial assumptions<br><br>• If any of the above conditions exist for three consecutive actuarial valuations, the following recommendations shall be made by the Board to the Governor and RLC, effective as soon as possible to improve the SDRS funded status<br>o Benefit reductions<br>o Contribution changes<br>o Combination of the two |

# Supplemental Information

**SOUTH DAKOTA CEMENT PLANT RETIREMENT FUND**

**PLAN HISTORY**

The South Dakota Cement Plant Retirement Fund (CPRF) was established in 1968, prior to the consolidation of the South Dakota Retirement System, to provide retirement, disability, and survivor benefits to employees of the South Dakota Cement Plant and their beneficiaries.

The Cement Plant was sold to a private entity on March 16, 2001. At that point, the CPRF was frozen. No new entrants to the plan were allowed, all members became 100 percent vested, and benefit accruals were frozen (earnings, credited service, and primary Social Security benefits as of March 16, 2001, remain unchanged). In addition, service with the successor employer counted toward achieving full early retirement benefits and optional spouse survivor coverage continued for participating employees even though contributions and disability coverage ceased. The Cement Plant Commission administered the retirement plan from its inception until responsibility for the oversight of the fund was transferred to SDRS in 2010.

The CPRF benefit structure is quite similar to SDRS (the overall CPRF benefits were prohibited from exceeding the SDRS benefits), but the lack of on-going contributions and an aging membership group means that the plan's maturity, negative cash flow, and sustainability outlook are very different from SDRS. Even though the CPRF has received several cash infusions since 2001, including a $4 million deposit in September 2010 from the sale of the final remaining Cement Plant property, a $1 million appropriation in 2012 and a combined $4 million at the end of fiscal year 2013 and the beginning of fiscal year 2014, an Unfunded Actuarial Accrued Liability of approximately $5.6 million exists as of June 30, 2013 (after consideration of the $2 million contributed in July 2013). Since the plan is very mature and has substantial negative cash flow, it would not be prudent to anticipate that investment performance above expectations will cover the current funding shortfall.

**RECENT EXPERIENCE**

At the time that the Cement Plant was sold, the CPRF was fairly well funded. However, since that time:

- Investment returns in fiscal years 2001, 2002, 2003, and 2008 were below expectations and the plan's funded status suffered.
- In FY 2004, 2005, 2006, and 2007, investment returns improved, as did the funded status.
- As part of the regular quadrennial review of the plan in 2007, it was determined that certain plan experience was not conforming to plan provisions and actuarial and benefit assumptions were adjusted accordingly. These adjustments and lower investment returns combined to diminish the plan's funded status in 2008.
- The Great Recession resulted in significant investment losses in fiscal years 2008 and 2009, followed by strong positive results in 2010 and 2011, and a relatively small positive return in 2012.
- As a result of reviewing the plan experience in 2012, the SDRS Board of Trustees decreased the investment return assumption from 7.75 percent to 6.75 percent and increased the life expectancy assumption to more accurately (and conservatively) determine the future costs of the CPRF benefits.
- The actuarial valuation results in 2012 showed a slight improvement compared to the 2010 results after the assumption changes were made and investment results for FY 2011 and 2012 were realized. Unfunded actuarial accrued liabilities decreased from $15.0 million in FY 2010 to $14.1 million in FY 2012.
- The actuarial valuation results in 2013 showed significant improvement compared to 2012 results based on a strong investment return for the year. Unfunded actuarial accrued liabilities decreased to

$7.6 million as of June 30, 2013, or $5.6 million when considering the $2 million contribution made in July 2013.

**CPRF FUNDED STATUS AS OF JUNE 30, 2013:**

- The CPRF funded status is 87.7% as of June 30, 2013, or 90.9% considering the $2 million contribution made in July 2013
- The CPRF funded status has improved since 2010. However, the long-term expectation is that the plan will show a steady decline in the funded status without additional funding.
- Current Fund assets are $54.2 million and Fund liabilities are $61.8 million *(Present Value of Future Benefits)*, resulting in a deficit of $7.6 million, or $5.6 million considering the $2 million contribution made in July 2103.
- Investment performance (money-weighted return net of investment expenses) in fiscal years 2012 and 2013 was 1.7% and 18.2%, respectively.

**SUMMARY**

With the sale of the South Dakota Cement Plant and the closing and freezing of the South Dakota Cement Plant Retirement Fund, the CPRF is a very mature plan with a very significant negative cash flow and a fairly rapid payout of existing assets. It is very likely that the CPRF will need periodic infusions of cash to meet the plan liabilities and reduce the annual net negative cash flow. The SDRS Board of Trustees will continue to review the funding issues and work with the stakeholders to define a long-term course of action to improve the funding and sustainability of this plan.

**MEMBERSHIP FACTS**

| | 2001 Membership | 2008 Membership | 2010 Membership | 2012 Membership | 2013 Membership |
|---|---|---|---|---|---|
| Active Members | 180 | 98 | 71 | 55 | 26 |
| Inactive Members | 72 | 66 | 59 | 55 | 72 |
| Benefit Recipients | 148 | 204 | 227 | 230 | 239 |
| Total Members | 400 | 368 | 357 | 340 | 337 |

**2014 LEGISLATION**

During the Governor's Budget Address on December 3, 2013, Governor Daugaard brought forth a plan to fully fund the Cement Plant Retirement Fund and then consolidate the Cement Plant Retirement Plan into SDRS. The SDRS Board of Trustees voted at its December 4, 2013, meeting to support legislation proposed by Governor Daugaard regarding consolidation of a fully-funded Cement Plant Retirement Plan into SDRS.

In addition, the SDRS Board of Trustees will submit the following bill regarding the Cement Plant Retirement Plan for consideration during the 2014 legislative session:

- A bill to allow certain Cement Plant Retirement Plan members to elect lump sum settlements of their benefits