Historical Highlights
— of the —
South Dakota Retirement System

SDRS

Mission Statement

To plan, implement, manage and efficiently administer financially sustainable retirement income programs within the fixed resources available.

Core Values

Provide members and their families the opportunity to achieve financial security at retirement, death or disability by delivering appropriate and equitable benefits, and promote, encourage and facilitate additional member savings for retirement.

Long-Term Income Replacement Goals

Provide lifetime income replacement of at least 55 percent of final average compensation for career employees in each membership class.

Promote total 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.

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Historical Highlights of the South Dakota Retirement System 1973—2017

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Introduction

In 1977, a Council of State Governments report noted, “There is a broad consensus among all parties that consolidation (of public retirement plans) has been conceived properly and implemented successfully in South Dakota.”

This observation, made three years after SDRS’ creation, belies the struggle that occurred during the consolidation process. Slated as an innovative solution to the difficulties of providing retirement benefits for all public employees, consolidation became the focus of lengthy and often contentious debate. Legislative leaders such as Senator Jacob Krull and Representative James Rothstein along with retirement officials and representatives of the membership ultimately resolved what appeared to be insurmountable objections.

On July 1, 1974, South Dakota’s seven public retirement plans joined into a unified system controlled by an elected board and managed by one administrator. South Dakota had created one of the first consolidated multiple-employer public retirement systems in the nation. With its inception, all public employers and employees could speak as one on issues such as:

- The importance of the system’s financial strength
- The need for benefit improvements
- The elimination of inequities
- The inviolability of the trust fund
- The significance of the board’s managerial autonomy

The following is a synopsis of the decisions, efforts, and events that molded the SDRS of today and will, no doubt, continue to shape the system in the future.

The Road to Consolidation

1939—1972

Public retirement plans in the United States date back to 1857. South Dakota's first plan started in 1939 and, by 1972, a patchwork of 11 public retirement systems had been created in the state:

- 1939: teachers retirement plan (liquidated in 1951)
- 1951: supreme and circuit court judges plan
- 1957: state law enforcement officers plan
- 1959: a second teachers plan
- 1961: municipal police officers plan and employment security employees plan
- 1964: Board of Regents faculty and administrators plan
- 1965: municipal employees plan (all municipal employees joined the municipal police officers plan)
- 1967: public employees retirement system (state and county employees, plus classified employees of public schools, colleges, and universities
- 1972: district, county, and municipal judges plan and state cement plant plan

Added to this mixture of plans were differences in eligibility and administrative requirements, benefits, and funding levels. Some plans had low benefits and were inadequately funded. Others had no funding at all.

As a result, the state Legislature was regularly deluged with retirement bills. Some systems pleaded for benefit increases that had been granted to other plans, some groups wanted to start new systems, and still others wanted to change their existing plan provisions. By 1972, it was apparent that South Dakota did not have a coherent policy on public employee retirement plans. Some form of remedial action was needed.

Consolidation—The Debate

1972—1974

The move toward consolidation was sparked by a proposal for yet another retirement plan that would remove the Board of Regents' classified employees from the public employees plan. The resulting debate prompted legislators to consider consolidation as an alternative to the existing multi-system approach.

Consequently, in 1973, the Legislature appointed a select committee to explore the possibility of consolidation. This committee worked though the summer and fall of that year and arrived at the following conclusions:

- There was no uniformity and, therefore, no state policy regarding public employee retirement in South Dakota.
- Benefit levels for many of the systems were inadequate for both present and future retirees.
- One fund was virtually insolvent, and all others, with the exception of the teachers plan, were inadequately funded.
- Benefits were not "portable" from one public employer in South Dakota to another.
- The small number of participants in some systems made those systems vulnerable to wide variations between plan assumptions and actual experience.
- Achieving good investment returns with acceptable risks in a small trust fund was more difficult than in a larger, more easily diversified trust fund.
- Qualified administrative staff were more difficult and expensive to recruit for several small systems than for one large system.
- A consolidated plan would make future retirement issues more manageable.

Consolidation's Opponents Voice Their Concerns

In spite of the general consensus on these points, the wisdom of consolidation was still in dispute. Participants argued that a consolidated system could not address the unique needs of each group. They believed the large trust fund created by pooling the money from the individual plans would be an easy target for a raid.

Others feared that the political strength of a united membership would be so great that legislators would be compelled to approve unwarranted benefit increases. Finally, some teachers thought consolidation was a way to use assets from their adequately funded system to bolster the weaker public retirement plans.

The committee, while acknowledging these concerns, voted to recommend the creation of a consolidated public retirement plan to the 1974 state Legislature.

Creating a Consolidated System

1974

Senate Bill 79, which created the consolidated South Dakota Retirement System, was controversial and hotly debated. Even so, it won a resounding victory, passing 32 to 2 in the Senate and 65 to 3 in the House.

The new consolidated system was made up of the supreme and circuit court judges plan; the district, county, and municipal judges plan; the teachers retirement plan; the municipal employees plan; the public employees system; and the state law enforcement officers plan. Provision was made for cement plant employees to enter the plan by 1977.

The bill also created a governing Board of Trustees representing employees and employers from all groups participating in the system. After the initial appointments in accordance with SB 79, 13 of these representatives were to be elected by their groups, two to be appointed by the governor, and one to serve as a non-voting representative of the South Dakota Investment Council. The groups represented were:

- State employees (two representatives)
- Teachers (two representatives)
- Municipal employees
- County employees
- Cement plant employees
- Law enforcement officers
- Justices, judges, and law-trained magistrates
- County employers
- School boards
- Municipal employers
- Retirees

Funding the System

In order to respond to the varying career characteristics of public employees, lawmakers created membership categories. These categories or "classes" were determined by the employees' job descriptions and special retirement requirements. Most employees fell within Class A membership, while the remainder, judiciary and law enforcement employees, were placed in Class B. The Legislature set employee contributions at 5 percent of salary for Class A members and 6 percent of salary for Class B members, matched by contributions from their employers.

Benefits were to be determined by three factors:

- A percentage multiplier
- The final average salary of a member
- His or her number of years of employment eligible for inclusion in SDRS (years of credited service)

These three factors formed the SDRS retirement benefit formula: the **Multiplier** times the **Final Average Salary** times the **Years of Credited Service**.

In addition to financing benefits of future retirees, the plan's designers had to finance an improvement in benefits for public employees who were already retired. Many of them were living on the inadequate benefits of their old retirement plans.

The Legislature consequently appropriated $10.5 million between 1974 and 1976 to fund a benefit improvement for all pre-1974 retirees and bring the funding for the state law enforcement officers plan, the municipal employees plan, and the public employee system up to the level the teachers system enjoyed.

Still remaining, however, was a large debt, or "unfunded liability." This liability was due to the credit toward retirement members received for the years they worked prior to the creation of SDRS. During those years, members may have made no contributions or contributions that were too small to pay for the new SDRS benefits. This unfunded liability was projected to take 41 years to pay. The time period required for the payment of that debt would prove to be a volatile benchmark for the financial condition of the system.

Senate Bill 79 also created the position of system administrator, capped administrative costs at 3 percent of annual contributions and made the South Dakota Investment Council responsible for investing SDRS' assets. The law mandated annual reports on the system's status and required that records from board proceedings be open to public inspection.

Consolidation Committee

Committee members were Sens. Rodney Hall, Homer Harding, Jacob Krull, and Eugene Mahan; Reps. Wayne Hauschild, James Rothstein, and Bernard Stoeser; Supreme Court Justice Charles S. Hanson, District County Judge Marvin S. Talbot; Al Asher, administrator, Public Employees Retirement System; Bernard Christenson, special agent, Division of Criminal Investigation; Dennis Hull, president, South Dakota Education Association; Dr. Carl Lutz, Board of Regents; Elmer Meyer, municipalities; and Bill Scanlon, South Dakota Cement Plant. Mr. Wesley Tschetter staffed the committee for the Legislative Research Council, and A. S. Hansen, Inc. was hired as a consulting actuarial firm.

The Early Years

1975—1977

During its first years, the system's primary mission was to prove that consolidation really could work. SDRS would have to resolve the technical problems inherent in setting up a new, complicated, multiple-employer system with thousands of members and millions of dollars in assets. The needs and demands of the various employee and employer groups would have to be met, old wounds healed, and philosophical issues addressed.

Al Asher, the administrator of the Public Employees Retirement System, became the system's first administrator. After hiring a staff, he began the task of collecting and reconstructing the records of the old plans, establishing filing systems, and creating a computerized record-keeping system.

Standard interpretations of retirement system laws also had to be developed and presentations prepared for the hundreds of meetings that would be held to explain the new plan and resolve controversies.

Changes during this period included legislation bringing the Board of Regents' faculty and administrative employees into the system in 1975. Cement plant employees were specifically excluded from the plan by the 1976 Legislature.

Controversies were not long in the making. The first involved "stacking," the process by which employees manipulated the timing of their contributions to inflate their final average salaries. The 1976 Legislature eliminated this loophole by placing a cap on contributions made during the last three years of employment.

A second controversy involved Class B contributions. Set at 6 percent of salary and matched by employers, Class B contributions were not large enough to pay for Class B benefits. This shortfall meant that Class A members' contributions were subsidizing Class B members' benefits. The matter was addressed, although not resolved, by increasing the contribution levels of Class B members to 8 percent of salary, again matched by their employers. The change became effective July 1, 1978.

During this same period, pre-1974 retirees continued to press for increased benefits. Teachers who retired under the old teacher's plan were particularly vocal, arguing that their benefits should have been recalculated based on the 1 percent multiplier enjoyed by members retiring after July 1, 1974.

SDRS' first actuarial valuation took place in 1976. Put simply, this study compared the dollars in the system with the dollars promised to present and future retirees. The valuation was one of the first proofs that a consolidated system could work, indicating that it would take just 19 years rather than 41 to pay the system's debt. The system was clearly progressing faster than expected, in part because of higher-than-expected investment earnings and what would prove to be conservative assumptions about the system's future experience.

New Powers, Old Controversies

1978—1982

In the four years between 1978 and 1982, the Legislature gave the SDRS Board of Trustees new authority in two important areas. The first was the power to set the assumptions used in projecting the system's financial obligations. These assumptions include investment return, mortality of members, annual increases in members' salaries, rate of inflation, and employee turnover. Their importance stems from the dramatic effect, either positive or negative, their change can have on the projected dollars available for benefits. Therefore, it took 18 months of study before the board agreed in 1979 to their modification.

The second important power was the authority to appoint the system's administrator. Thus far, the secretary of the Department of Labor had appointed the administrator and set his or her salary. The board's authority was limited to approving the appointment. In 1979, however, the board received the authority to hire the administrator and, in 1980, the authority to set the administrator's salary, subject to confirmation by a majority of the members of the Legislature's Retirement Laws Committee.

Another change came in 1979 when the Legislature set new guidelines for the governor's appointees to the SDRS Board of Trustees, mandating that one be the head of the principal department or bureau under the Office of Executive Management and the other a representative of the general public.

Controversies Resolved

The system's actuarial valuation in 1980 showed that the period over which the unfunded liability would be paid had decreased to nine years from 24. This reduction was due to favorable experience and to the new, more accurate assumptions the board had established. As a result, dollars were now available to address the issue of benefit improvement for pre-1974 retirees. These retirees continued to argue that their benefits should equal those received by members who had retired after SDRS' creation, that is, 1 percent of final average salary for each year of service.

In 1982, the board and the Retirement Laws Committee agreed and reached a funding compromise in which SDRS would absorb two-thirds of the cost of the benefit improvement, and the Legislature would appropriate the remaining third on an annual basis. If the Legislature failed to appropriate its share of benefit improvements, the benefit increases would be decreased proportionally. This arrangement continued until 1989, when SDRS absorbed the total cost of this benefit improvement.

A compromise was also reached on the issue of Class A subsidy of Class B benefits. Those Class B Public Safety members hired before July 1, 1982, retained their normal retirement age of 55. But their contributions were slated to increase by 1/8 of 1 percent per year, so that by July 1, 1997, contributions would total 20 percent—10 percent from the employee and 10 percent from the employer.

The contribution rate for the judiciary was increased on the same schedule but with no change in the normal retirement age of 65. Class B Public Safety members hired on or after July 1, 1982, would continue to contribute at 8 percent but have a normal retirement age of 60. These changes eliminated the Class B subsidy.

State penitentiary correctional staff became Class B system members during this period. Sheriffs and deputy sheriffs also became Class B members, correcting an oversight made in 1974.

1978 Benefit Improvements

During the interim between the 1977 and 1978 legislative sessions, the board and Retirement Laws Committee agreed on two benefit improvements. The first reduced the penalty for retiring before normal retirement age from 6 percent of benefits per year to 3 percent.

The second boosted the automatic cost-of-living increase in benefits from 2 percent annually, not compounded, to an amount equal to 50 percent of the increase in the Consumer Price Index (CPI), not to exceed 2 percent, compounded annually.

The legislation affecting these changes passed in 1978 and extended the funding period to 30 years.

1982 Benefit Improvements

The 1980 actuarial valuation showed that in addition to increasing the benefit multiplier for pre-1974 retirees, the system could fund two other benefit improvements. The first increased the Class A benefit multiplier from 1 percent to 1.1 percent of final average salary times years of credited service for members who retired on or after July 1, 1982. Because it was prospective (that is, applying only to members retiring after July 1, 1982), the increase created a problem similar to that of pre-1974 retirees. The benefit multiplier for retirees was again inconsistent, and the result would be a new wave of pressure to equalize the multiplier. This time, however, the movement was driven by a more inclusive group—pre-1982 retirees.

The second benefit improvement raised the cap on cost-of-living adjustments from 2 percent to 3 percent. Since this improvement applied to all members, it was enthusiastically supported by all. Together, these improvements increased the funding period from nine to 28 years.

Expanding Plan Provisions

1983—1987

Tax Deferral Plan

In 1984, SDRS became one of the few public retirement plans to become “qualified” under the Internal Revenue Service Code. This qualification allowed the board to begin the SDRS Tax Deferral Plan (TDP). For members, TDP meant:

- Reductions in current income tax and an increase in take-home pay
- Taxes paid on contributions when withdrawn from the system
- Continued control over contributions and the ability to withdraw them upon leaving SDRS
- No change in Social Security benefits
- No change in SDRS or other benefits

The provisions of TDP were explained to the membership and in effect by July 1, 1984.

Supplemental Retirement Plan

A second major expansion during this period was the creation of the Supplemental Retirement Plan (SRP). The SRP gave members the option of setting aside a portion of their salary in a tax-sheltered investment account for additional retirement income. The SRP made both contributions and earnings free of taxes until withdrawn. Moreover, it offered members a choice of investments ranging from aggressive to conservative. The SRP, combined with SDRS and Social Security benefits, gave employees the tools with which to shape their financial futures.

SDRS began accepting contributions to the SRP in November 1987, and in July 1988, the board signed a contract with National Deferred Compensation, a private-sector administrator, to market and manage the SRP. SDRS, however, continued to oversee the program and to screen and select investment options. By June 30, 1992, the plan had 2,950 participants and almost $15 million in assets.

1986 Benefit Improvements

The 1984 actuarial valuation showed that investment performance and other experience were again better than expected. Consequently, the funding period had once again shrunk, this time from 28 to 18 years.

In 1985, a project team made up of five board members, the administrator, and a Retirement Laws Committee member assembled to review assumptions and consider guidelines for benefit improvements. As part of its study, the team analyzed long-term projections about the availability of dollars to pay benefits and created best-case and worst-case economic and experience scenarios for SDRS. It concluded:

- The plan’s assumptions were appropriate and conservative.
- The techniques used to determine the financial strength of the system were also appropriate and conservative.

- The system would be able to weather even the worst-case economic and actuarial scenarios.
- The system could support a funding period of up to 50 years without jeopardizing its financial stability.

As a result of the project teams' work, the board recommended and the 1986 Legislature passed the most sweeping benefit-improvement package to date. The improvements affected both Class A and Class B members and retirees—members with short, medium, and long terms of service. The package contained the following provisions:

- An increase in the Class A benefit multiplier from 1.1 percent to 1.2 percent for members retiring after July 1, 1986
- An improvement in the early retirement provisions that allowed members with 25 years of service to retire as early as age 60 without a reduction in benefits. Members aged 55 who had 30 years of service were allowed to retire with a 15 percent reduction in benefits instead of the previous 30 percent penalty.
- An improvement in the interest paid to members withdrawing from the system. The board was allowed to set the rate within a range of 5 percent to 10 percent, but the rate could be no more than 90 percent of the average rate for 91-day U.S. Treasury Bills in the preceding year.
- An increase in the cost-of-living adjustment paid to retirees that allowed it to equal the consumer Price Index up to a maximum of 3 percent
- The addition of an annual cost-of-living adjustment (equal to the CPI, up to a maximum of 3 percent) on vested benefits if member contributions were left in the system
- A decrease in the offset for death benefits
- The addition of employer contributions to the guaranteed minimum payments from SDRS after retirement
- An increase in the disability benefit, allowing a guaranteed payment of $600 per year or 6 percent of salary, whichever was greater

1987 Benefit Improvements

There were two benefit improvements in 1987. The first, although not large when compared to other improvements, was exceptional for the way in which it occurred.

A group of state employees requested the board to grant them credit in SDRS for service not granted to them under the old Public Employees Retirement System. The board turned down the proposal and recommended, as an alternative, a one-year window during which members could buy uncredited service at 5 percent of current salary instead of the normal 10 percent. The group, in turn, rejected the board's alternative and presented their request directly to the Retirement Laws Committee, which supported their request for credited service. The resulting legislation was the first instance of the Legislature increasing benefits over the objections of the board.

The second improvement increased the retirement benefit multiplier from 1 percent to 1.05 percent in 1987 and 1.1 percent in 1988 for members who retired before July 1, 1982.

By the end of the 1987 legislative session, the funding period had been extended from 36 to 45 years.

Looking to the Future

1988—1989

In 1988, the board began a comprehensive strategic planning process to determine the course of the system for the next five years. The planning process involved both a careful scrutiny of the present SDRS and the construction of a model for its future.

An early product of the process was a comprehensive mission statement built on three core concepts:

- Outstanding Benefits: achieving the largest package of benefits possible for the amount of contributions to the system
- Appropriate Benefits: providing a retirement benefit large enough to maintain a member's standard of living after retirement
- Equitable Benefits: achieving a balance between the benefits a group receives and the amount of contributions its members make to the plan

The mission statement became the cornerstone for succeeding discussions about the future of the system.

In the past, the board had made decisions about most benefit improvements with little knowledge about the way SDRS benefits compared with other systems and without a long-term strategy. With the consideration of long-term benefit goals, the board began to develop a comprehensive vision for the future of SDRS.

SDRS' actuary presented the results of a survey of retirement systems across the nation. A comparison of the survey results with SDRS' benefit structure revealed that SDRS was:

- Above average in employee contributions required and vesting provisions
- Average in final average salary provisions and cost-of-living adjustments
- Below average in the amount of employer contributions, benefit multiplier, and early retirement benefits

Of particular note was the difference in the amount of contributions made to SDRS compared with those made to other systems. The median contribution to retirement plans in the survey was 15 percent of pay, compared to only 10.5 percent of pay in SDRS. While making SDRS substantially less expensive for employers, the limited dollars by necessity affected the size of benefits.

After analyzing various benefit structures, the board established its first set of long-term benefit goals:

- To increase the Class A benefit multiplier to 1.5 percent
- To increase the cost-of-living adjustment to 5 percent
- To increase the early retirement benefit to allow retirement without penalty at age 55 with 30 years of service
- To eliminate inequities, specifically those regarding uncredited service, retiree benefits, and Class B benefits

These goals were meant to guide subsequent decisions about benefit improvements. Coincidentally, a test of this goal-setting exercise and the strategic planning process as a whole was already in the making.

1989 Benefit Improvements

In 1986, investment earnings were 26.7 percent, and in 1987, 15.3 percent, both far above the earnings assumed by the system (7.0 percent). The 1988 actuarial valuation reflected the variance. It showed a marked decrease in the funding period from 45 years to six years, meaning SDRS again had a large pool of dollars for benefit improvements.

The benefit improvement decisions made in 1989 clearly reflected the long-term goals set during the strategic planning process. The improvements focused on the Class A benefit multiplier, early retirement benefits and the elimination of inequities.

- The Class A benefit multiplier was increased from 1.2 to 1.25 percent.
- The retiree benefit multiplier was increased to 1.25 percent for all Class A retirees regardless of the year they retired.
- The combined employee-employer contribution rate for Class B Judicial members was frozen at 18 percent of salary.
- The normal retirement age for all Class B Public Safety members was set at 55 years of age, and the combined employee-employer contribution rate was frozen at 16 percent.
- The rate at which active employees could purchase uncredited service was set at 75 percent instead of 100 percent of the employer-employee contribution rate.
- Members were no longer required to be working at age 55 to be eligible for the special early retirement benefit.

The cost of this package was estimated at $100 million, moving the funding period out to 46 years.

Saying “No” to Using SDRS Funds for Venture Capital

The 1989 Legislature slammed the door on the idea of using SDRS Trust Fund dollars to finance venture capital projects. Senate Bill 240, introduced by Sen. James Stoick, chairman of the Senate Retirement Laws Committee, and Rep. John Sears, chairman of the House Retirement Laws Committee, put into statute the view of the vast majority of SDRS members that “assets of the system may not be used as venture capital.” The bill swept through the legislature, passing in the Senate 32 to 1 and in the House 62 to 0.

The new law eased the concerns of SDRS board members who had analyzed social and venture capital investing throughout 1988. At its August meeting, the SDRS board had passed a resolution opposing such use of the SDRS Trust Fund, noting that these investments were risky and threatened the financial stability of the system.

The board had sent copies of its resolution to all members along with a survey requesting them to express their support or disapproval. The results were staggering. Over 16,000 members returned the survey, and all but 86 supported the board’s position. The survey was instrumental in convincing the Legislature of the depth of membership concern.

Retirement Laws Becomes Standing Committee

The 1989 Legislature also elevated the status of the Retirement Laws Committee to that of a standing committee. This change meant that SDRS’ key legislative link could now introduce bills, conduct hearings, and recommend floor action. The importance of this change immediately became apparent in the efficiency with which the committees dealt with the venture-capital controversy.

Toward Managerial Control

1990—1992

The year 1990 marked the first time in which SDRS' position as a multiple-employer plan rather than a single-employer "state" retirement plan became a legislative issue. Many assumed SDRS was exclusively a state agency managing a plan for state employees, rather than a multiple-employer system consisting of school districts; legislative, executive, and judicial agencies; institutions of higher education; municipalities; counties; and other public entities. This assumption received its first challenge during committee debate on HB 1112, written and sponsored by members of the Retirement Laws Committee.

The "budget bill," as HB 1112 became known, would have given all of the participating employers represented on the elected board equal control over the system's administrative expenditures. Operating under a maximum expenditure of 3 percent of annual contributions, the board would have provided the Legislature with an informational budget as it had prior to 1976.

Although the budget bill ultimately failed, board members believed it succeeded in introducing legislators to SDRS' unique position as a multi-employer structure.

The following year, 1991, a second version of the "budget bill," giving the Retirement Laws Committee final approval of the board's budget request, was presented to the Retirement Laws Committee. When significant amendments to the bill were introduced, SDRS board members present at the hearing concluded that the full board should consider the amendments over the summer. The goal would be to arrive at a bill totally acceptable to the Retirement Laws Committee prior to the 1992 session.

The board's third version of the "budget bill," submitted in 1992, was similar to the 1991 version with two exceptions:

- The new proposal confirmed the fiduciary responsibilities of board members.
- It gave the board the authority to determine SDRS' administrative budget (limited to a reduced maximum of 2.75 percent of contributions) without direct legislative or executive approval.

In January 1992, the Retirement Laws Committee divided the board's proposed "fiduciary bill," as it was now called, into two segments. The first, confirming in statute the fiduciary responsibilities of the board, was passed out of committee and ultimately became law. The Retirement Laws Committee, however, tabled the second segment that was intended to streamline the budgetary approval process.

The Regents' Optional Plan

While the fiduciary bill was of great importance, a Board of Regents proposal was the paramount issue of the 1992 session. The Regents' proposal contained in HB 1177 gave faculty members the option of participating in either SDRS or a special retirement plan designed for short-term employees. This optional plan, according to the regents, was necessary to attract high-quality college teachers to South Dakota's universities.

The SDRS Board strongly opposed the optional plan as proposed in HB 1177, citing its cost to the system. Trustees noted that the issue needed further study and alternative solutions.

After a great deal of discussion and debate, the Retirement Laws Committee directed the Board of Regents and the SDRS Board to study the issue further and return to the committee with a joint recommendation that was cost neutral to SDRS by November 1992. House Bill 1177 was tabled in the House Retirement Laws Committee.

1990 Benefit Improvements

During the 1990 session, only four bills of consequence survived the rigors of the legislative process. Three of these removed the payment of penalties on certain benefits. The actions of the Legislature:

- Removed the earned income penalty on SDRS disability benefits. SDRS members who were disabled could earn additional income from work without suffering a loss in disability benefits.
- Eliminated the penalty on SDRS retirement benefits paid to members receiving military or National Guard retirement benefits. SDRS members retiring under the 2 percent benefit multiplier after June 30, 1990, who also received federal military or National Guard benefits, would receive full SDRS retirement benefits.
- Allowed Class B Judicial members to retire without penalty if a combination of their age and years of credited service totaled 80 or more. For example, a judge who was 55 years of age and had 25 years of credited service could retire without a reduction in his or her retirement benefits.
- Set an open enrollment period for the optional survivor coverage.

1991 Benefit Improvements

The 1990 actuarial valuation showed another dramatic improvement in SDRS' financial condition. The length of the funding period, the standard measure of the system's health, had dropped to 12 years, and the ratio of assets to liabilities was 117 percent. Consequently, the board proposed and the Legislature passed benefit improvements increasing the benefit formula for active and retired Class A members and improving the retirement opportunities for both Class A members and Class B Public Safety members.

- The benefit multiplier for Class A members, including those already retired, increased from 1.25 percent to 1.30 percent.
- Special early retirement criteria for Class A members changed from a minimum age of 60 plus at least 25 years of service to a minimum age of 58 with 27 years of service.
- Early retirement for Class B Public Safety members changed to include full retirement benefits at age 50 for members with at least 25 years of service.

1992 Benefit Improvements

There were no benefit improvements in 1992. The following, however, is a list of bills passed and signed into law.

- Board's Fiduciary Bill: spelled out in statute the fiduciary responsibilities of the SDRS Board of Trustees
- Statute of Limitations Bill: limited the time period in which an application for disability benefits can be made (within three years of the member's final paycheck)
- Disability for Older Workers Bill: made the disability option equally available to all members of SDRS
- Air Rescue Fire Fighter's Bill: made air rescue fire fighters Class B members after July 1, 1992
- Veteran's Disability Offset Bill: required a study of disability offsets during 1992

Plan Objectives Revisited

1993—1994

In 1993, trustees turned their attention toward the pressing issue of the Board of Regents' proposal to create a separate retirement plan. During the 1992 session, the Legislature had directed the SDRS Board and the Board of Regents to consider alternatives that would be "cost neutral" to SDRS and still meet the Regents' needs. As a result, the SDRS Board began a review of its benefits for long-term and short-term employees, as well as the advantages and disadvantages of defined-benefit plans and defined-contribution plans.

A joint summer study resulted in a cost-neutral proposal that would have created a separate plan for Regents while avoiding a major SDRS objection by placing all costs for the new plan on the Regents' employees who chose to participate. Their costs would include 8.5 percent of salary to fund the plan and 1.5 percent of salary to offset SDRS' expenses.

The Regents submitted the proposal to the 1993 Legislature. The position of the SDRS Board was to neither recommend nor oppose the Regents' bill. Although the SDRS Board remained neutral, many constituent groups testified in opposition. Opponents claimed the Regents' proposal would create a favored class among public employees and would undermine the idea of a consolidated system. The Regents, on the other had, argued that a plan designed for short-term employees was critical to their recruitment efforts because administrators and faculty frequently changed employers. The bill was tabled by the House Retirement Laws Committee.

A second major undertaking for the board and SDRS staff was a review of the Supplemental Retirement Plan (SRP). A comprehensive survey of 11 state deferred-compensation plans formed the basis of staff presentations on the hidden costs of these various plans. The survey showed that the SRP registered slightly above average in the total cost of record-keeping, administrative, and investment expenses. The average plan in the survey incurred expenses ranging from 1.2 percent to 2.1 percent of assets, while the expense range for South Dakota's SRP was 1.4 percent to 2.4 percent.

In other SDRS-related action, the Legislature selected the criteria for Class B membership in SDRS as a summer study topic.

Changing the Method of Improving Benefits

In its proposal to the 1994 Legislature, the SDRS Board improved retirement benefits for nearly all SDRS members, It increased the Class A benefit multiplier from 1.3 percent to 1.4 percent for one-half of a member's years of credited service as of July 1, 1994. All other credited service, including future service and service purchased between January 1, 1994, and June 30, 1994, was calculated at 1.3 percent. The board made comparable benefit improvements for members with Class B Public Safety and Class B Judicial credited service. This method of improving benefits would be used again in 1997 and 1998.

The board's action represented a major shift in the method of making improvements to the benefit multiplier. Rather than increasing the multiplier for all service, the board limited the increase to a specific time period. The typical Class A benefit formula now read:

> **Enhanced Benefit**
> 1.4 percent X Final Average Salary X One-Half of Credited Service earned before July 1, 1994
>
> ***PLUS***
>
> **Base Benefit**
> 1.3 percent X Final Average Salary X All Remaining Credited Service

The board's change in approach was driven by the cost of ongoing benefits. Historically, benefit improvements applied to present members, future members, and all credited service. The cost of benefit improvements on prior service was paid for with investment earnings, but the cost to improve future service was financed by employee and employer contributions. However, as SDRS increased benefits, virtually all contributions became committed to the ongoing costs. Now, by limiting eligibility to present members and also limiting the amount of credited service that applied, the board could upgrade retirement benefits if investment earnings were high without affecting the ongoing costs of the system.

Board Opposes Regents' Optional Plan

For the third year in a row, the Board of Regents submitted legislation that would have created an optional retirement plan for its administrators and faculty. The optional plan was intended to increase the portability of retirement benefits for short-term employees.

The SDRS board again opposed the Regents' plan because of the threat it posed to the consolidation of South Dakota's public retirement plans and the preferential treatment it would have granted to Regents' employees. The Regents' proposal, SB 137, was defeated on the Senate floor.

A reoccurring issue throughout the debate on SB 137 was the question of portability of SDRS benefits. How portable are SDRS benefits now? How portable should they be? Are there modifications that could be made to SDRS that could apply equally to all members? These questions would be debated again in 1995.

New Data Processing System Funded

After a three-month study of SDRS' long-term data processing needs by Universal Marketing Inc., the Bureau of Administration submitted a report and recommendation for change to the 1994 Legislature. The proposal for a major upgrade of SDRS' data processing system was approved by the Legislature, along with the authority to expend $400,320 to carry out the improvements. In addition, the Legislature authorized the hiring of one new employee to assist in the development and maintenance of the new system and to provide critical backup for SDRS.

[Note: During the reorganization of the state's data processing system in late 1995, SDRS' two data processing staff members, one of whom was hired for the upgrade, were transferred to the Bureau of Information Technology. SDRS was able to contract for the services of one of these two individuals, but not the other. As a result, SDRS did not have the personnel to provide backup to the old mainframe system nor to develop the new system on schedule.]

1993 Legislative Proposals

The board's legislative proposal consisted of the following elements:

- The board proposed increasing the cost-of-living allowance (COLA) for retirees from 3 percent to 3.1 percent beginning July 1, 1993, a 3 percent increase over the present amount. The Legislature passed this proposal.
- The board proposed a reduction in Class A members' minimum age for special early retirement from 58 to 55 years of age. The Legislature passed this proposal.
- The board proposed changing the structure of SDRS disability benefits, including the way in which other public benefits affect SDRS disability benefits. The Legislature rejected this proposal.

- The board proposed controls that would help to eliminate the manipulation of final average salaries to enhance benefits. The Legislature passed this proposal.
- The board proposed a change in the statute, as required by federal law, to allow members who are leaving the system to roll over their refund directly into an IRA or other eligible retirement plan. The Legislature passed this proposal.
- The board proposed Class B membership for Aberdeen ambulance attendants, court service officers, and USD and SDSU campus security officers. In addition, it recommended that Class B members be allowed to convert certain Class A service to Class B if they paid the cost. This option was to apply only to present Class B members who had held Class A positions that were later changed to Class B. The Legislature passed this proposal.

Benefit Improvements

Of the proposals passed by the 1993 Legislature, the following represented improvements in benefits for the membership:

- The increase of the COLA to 3.1 percent
- The reduction in the minimum age for Class A special early retirement
- The elimination of the offset for payments received for veterans' disability benefits
- The option for Class B members to convert certain Class A service to Class B service if they paid the cost. This option applied only to present Class B members who had held Class A positions that were later changed to Class B.

1994 Legislative Proposals

The board's legislative proposal contained the following elements:

- The board proposed an increase in the retirement benefit multiplier for all members with credited service as of July 1, 1994. The Legislature passed this proposal.
- The board proposed changing the eligibility requirements for the Class B Public Safety seat on the SDRS Board of Trustees. The Legislature passed this proposal.
- The board proposed allowing retired Aberdeen firefighters to participate in SDRS. The Legislature passed this proposal.
- The board proposed eliminating the SDRS offset for employer-sponsored, short-term disability plans. The Legislature passed this proposal.
- The board proposed changes in both the definition of disability and the structure of disability benefits. The Legislature passed this proposal.
- The board proposed revising the offset to family survivor benefits under SDRS. The Legislature passed this proposal.
- The board proposed modifying the quorum and voting retirements for Board of Trustee meetings. The Legislature rejected this proposal.

Benefit Improvements

Of the proposals passed by the 1994 Legislature, the following represented improvements in benefits for the membership:

- The increase in the retirement benefit multipliers
- The restructuring of disability benefits commencing July 1, 1994
- The elimination of the SDRS offset for employer-sponsored disability plans
- The revision of the SDRS offset for family survivor benefits

Legislature's Summer Study of SDRS

Members of a 1994 legislative summer study committee heard testimony from trustees, lobbyists, insurance companies, actuaries, and investment experts during their review of SDRS. Topics ranged from the retirement needs of short-term employees to supervisory authority over SDRS' administrator.

Following its first meeting, the study committee compiled a list of nine concepts containing specific proposals for change. SDRS trustees reviewed these concepts and took positions either modifying or opposing them. Late in 1994 the study committee received final testimony before approving proposed legislation drafted from the concepts. Only one of the committee's proposals was passed by the 1995 Legislature. It abolished the four-year term of the system's administrator and changed the salary approval process.

Board Drafts White Paper on Future Changes in SDRS

Although the summer study produced no immediate changes in SDRS, it gave additional impetus to the Board of Trustees' review of the system's plan design.

The results of the board's internal review took the form of a white paper, "A Statement of Principles and Direction for the Plan Design of SDRS," adopted in November 1994. One of the paper's most significant elements was its conclusion regarding the balance between short-term and long-term benefits. An analysis by the system's consulting actuary showed that the ratio of benefits favoring long-term members exceeded those favoring short-term employees three to one. The board's paper affirmed the validity of this ratio, pointing out that while SDRS was concerned with the needs of short-term members, its primary mission was to guarantee an adequate retirement for long-term members.

Adapting the System

1995—1999

In the years 1995 through 1999, the board concentrated its efforts on adapting SDRS provisions to the changing needs of its members. During that five-year period, it addressed the need for an increase in the portability of SDRS retirement benefits, an increase in the dollar amount of retirement benefits, a more effective method of measuring the financial status of the system, and a reduction in the cost of the Supplemental Retirement Plan.

The Portable Retirement Option

The board's first major initiative during this period was the creation and implementation of the SDRS Portable Retirement Option (PRO) in 1995. This modification of the plan expanded the portability of retirement benefits and consequently enhanced the ability of SDRS employers to recruit new employees.

Portability for Some

Under the 1995 provision, new members who chose the PRO and later left the system took with them their own contributions plus a percentage or all of their employer's contributions, based on length of credited service.

- Employees with less than three years of credited service took 100 percent of their own SDRS contributions and 75 percent of their employer contributions.
- Employees with three or more years of credited service collected 100 percent of both their own and employer contributions.

However, this increased refund, which was available only to new members who entered after July 1, 1995, came at a price. Members who joined the PRO sacrificed the SDRS disability and family benefit coverage provided at no cost to members of SDRS' Base Plan. If they chose, PRO participants could purchase SDRS family benefit coverage after one year of credited service and SDRS disability coverage after three years.

Neither employers nor new employees were under any obligation to enroll in the PRO. Each employer could choose whether to participate in the option. Employees of a participating employer had 90 days from the time of hiring to decide between the Base Plan and the PRO. This decision was critical because once made, it was irrevocable.

The PRO was designed with the assistance of the Board of Regents, who gave the provision its full support during the 1995 legislative session. During the implementation phase in 1996, the Regents expressed their satisfaction with the PRO and its effectiveness as a recruitment tool.

Portability for All

In spite of the PRO's success in meeting employers' recruitment goals, the issue of portability had not been put to rest. For example, in 1997 new legislation intended to create greater portability for Regents employees through a separate retirement plan was submitted to the Legislature. The legislation, which was attractive to private-sector vendors such as TIAA-CREF and to some legislators, was defeated in committee.

Moreover, the PRO's exclusion of SDRS' current members and the loss of disability and survivor benefits for those who did participate continued to cause concern. Issues such as these prompted further discussions by the board. The result was a bold expansion in 1998 of the refunding privileges of the PRO to all SDRS members. Unlike the original PRO that mandated forfeiture of survivor and disability coverage, this expansion of the PRO was cost-free to individual members.

This modification of the system is especially attractive to very short-term employees who are not vested. While they do not have the choice of taking an SDRS benefit at retirement, the PRO's increased portability allows them to take a larger retirement balance to their new job. At the same time, the expanded PRO improves the refund alternative for longer-term employees. Instead of taking a lifetime benefit at retirement, a member can select what may be a large cash payment. The expanded PRO now provides that:

- Members who are vested in SDRS (three or more years of credited service) and withdraw from the system will receive 100 percent of both their employer and employee contributions plus interest
- Members with less than three years of credited service who withdraw from the system will collect 100 percent of their employee contributions but only 75 percent of their employer contributions

Benefit Formulas Approach Long-term Goals

The second initiative was to improve SDRS' benefit formulas so as to bring them closer to the board's long-term goals. Using dollars set aside in the Reserve for Funding of Long-term Benefit Goals, the board increased the benefit multiplier in 1997, 1998, and 1999 for both present and future retirees. In total, the three years of improvements represent a more than 15 percent increase in retirement benefits for most SDRS members with service prior to 2000.

Measuring the Financial Status of the System

The board's third major initiative during this period was a modification in the method of measuring the financial status of the system. Although not as high-profile an issue as portability, the measurement of the assets and liabilities of SDRS controls the board's and legislature's judgment about the feasibility of benefit improvements. To make the task of measurement easier, the board, while maintaining its financial safety net, created a new reserve in which to accumulate funds to pay for future benefit improvements and protect the Plan in negative times. This long-term benefit goals reserve is funded as follows:

- An amount equal to an investment return of 8 percent (the amount needed to pay current benefits) is credited to the trust fund each year.
- Any investment earnings above an 8 percent return will be credited over a five-year period to the Reserve for Funding of Long-term Benefit Goals.

SRP Contract Revised

The board's fourth major initiative was the restructuring of the contract for its Supplemental Retirement Plan (SRP) so as to radically reduce the fees charged to participants. Their first step was to solicit proposals for a third-party administrator. Ten companies responded; the field was narrowed after review of all proposals to two finalists. National Deferred Compensation, Inc. was awarded the contract. As a result, the board was able to eliminate enrollment fees and transfer fees, and more importantly, to reduce the fee on participants' assets by over 60 percent. This meant the $1.15 previously charged for each $100 in assets was dropped to 45 cents per $100 as of July 1996. (This fee was further reduced to $.42 in October 1998.)

SDRS members gained the ability to manage their own SRP investment accounts through a new Interactive Voice Response System. By dialing an 800 number and using their phone's keypad, members could now obtain daily account balances, review deferral and allocation information, move an existing balance from one investment alternative to another, and obtain current interest rates, share prices, and past performance results.

1995 Legislative Proposals

The board's legislative proposals contained the following elements, all of which were passed by the 1995 Legislature:

- The board proposed permitting the retired Watertown firefighters to participate in SDRS.
- The board proposed allowing current contributing members to regain credited service lost due to mandatory refunds from SDRS and predecessor retirement systems by purchasing or redepositing.
- The board proposed repealing the offset of federal military retirement or federal National Guard retirement benefits from disability allowances effective July 1, 1994.
- The board proposed providing Class B membership in SDRS for certain employees of the Department of Game, Fish and Parks and to amend the definition of conservation officers.
- The board proposed permitting current contributing members to continue the optional spouse coverage beyond normal retirement age in SDRS.
- The board proposed providing a portable retirement option within SDRS for all employers.

Benefit Improvements

Of the proposals passed by the 1995 Legislature, the following represented improvements in benefits for the membership:

- The elimination of the SDRS offset for federal military retirement or federal National Guard retirement benefits from disability allowances
- The continuation of optional spouse coverage beyond normal retirement age in SDRS for current contributing members
- The creation of a portable retirement option for new employees of participating employers

1996 Legislative Proposals

The board's legislative proposals contained the following elements, all of which were passed by the 1996 Legislature:

- The board proposed that an annual actuarial valuation be required for SDRS instead of a biennial actuarial valuation.
- The board proposed that certain federal qualified plan limitations be incorporated into SDRS.
- The board proposed that SDRS members be allowed to redeposit contributions at any time within the first two years of reemployment.
- The board proposed that the Mitchell Fire Fighters be allowed to participate in SDRS.
- The board proposed that purchases of prior service in SDRS be allowed on a tax-deferred basis.

1997 Legislative Proposals

The board's legislative proposals contained the following elements, all of which were passed by the 1997 Legislature:

- The board proposed that the benefit multipliers be improved for credited service before July 1, 1997, for SDRS active and retired members, effective July 1, 1997.
- The board proposed to credit certain service lost by members of the previous Public Employees Retirement System (PERS) due to age and service waiting periods.
- The board proposed that Class B Public Safety members be allowed to purchase out-of-state public safety service as Class B Public Safety credited service.
- The board proposed changing the way retirement benefits are calculated for members whose benefits are suspended upon reemployment after retirement.
- The board proposed that beneficiaries be guaranteed minimum benefits without reduction for any payments made under Optional Spouse Coverage.
- The board proposed that certain federal requirements be incorporated into SDRS and the SRP to bring them into full compliance.

Benefit Improvements

Of the proposals passed by the 1997 Legislature, the following represented improvements in benefits for the membership:

- The increase in the benefit multipliers for credited service before July 1, 1997
- Granting of credited service to certain members of the former PERS

1998 Legislative Proposals

The board's legislative proposals contained the following elements, all of which were passed by the 1998 Legislature:

- The board proposed that the benefit multipliers be improved for credited service before July 1, 1998, for SDRS active and retired members, effective July 1, 1998.
- The board proposed that the Portable Retirement Option (PRO) be expanded to include all members.
- The board proposed changing the vesting period from five to three years of credited service.
- The board proposed crediting interest monthly instead of annually on contributions withdrawn from SDRS and on payments to beneficiaries.
- The board proposed a change in the way the COLA is applied to the benefit of a new benefit recipient.
- The board proposed adopting the Rule of 75, with a minimum age of 45, for Class B Public Safety members.
- The board proposed extending the initial enrollment period for Optional Spouse Coverage from 90 to 365 days.
- The board proposed allowing the City of Huron Firemen Pension Fund to participate in SDRS.

Benefit Improvements

Of the proposals passed by the 1998 Legislature, the following represented improvements in benefits for the membership:

- The increase in the benefit multipliers for credited service before July 1, 1998
- The expansion of the Portable Retirement Option (PRO) to include all members
- The change in the vesting period to three years
- The crediting of interest monthly instead of annually on withdrawn contributions and payments to beneficiaries
- The change in the way the COLA is applied to the benefit of a new benefit recipient
- The adoption of the Rule of 75 for Class B Public Safety members

1999 Legislative Proposals

The board's legislative proposals contained the following elements, all of which were passed by the 1999 Legislature:

- The board proposed that the benefit multipliers be improved for credited service before July 1, 2000, for SDRS active and retired members, effective July 1, 1999.
- The board proposed a procedure through which jailers could be included as Class B Public Safety members.
- The board proposed that the benefit paid to a surviving spouse of a member who dies before or after retirement be improved.

Benefit Improvements

Of the proposals passed by the 1999 Legislature, the following represented improvements in benefits for the membership:

- The increase in the benefit multipliers for credited service before July 1, 2000
- The increase in the benefit paid to the surviving spouse of a member

1999 Special Studies

2000

Senate Concurrent Resolution No. 6, passed during the 1999 legislative session, required SDRS to study "the possibility of raising the rates of contributions" for Class A members and their employers. Since 1974, SDRS has provided competitive benefits based on the resources available from fixed matching employer and member contributions without anticipating or requesting additional contributions.

During the same period as the Concurrent Resolution Study, SDRS participated in a Legislative Summer Study carried out by the Retirement Laws Committee (RLC) that focused on fairness issues within SDRS including:

- Definition of Class Membership
- Retirement Practices of Other Public Employers
- Alternatives for Class A Contribution Increases
- Class A and Class B Retirement Eligibility and Experience
- Class B Public Safety Membership
- Procedure to Consider Requests for Class B Membership
- Criteria for Class B Membership
- Alternatives for Class B Public Safety Membership

The recommendations by the RLC as a result of the Summer Study for introduction to the 2000 Legislature were to:

- Increase both Class A member and employer contributions to SDRS by 1 percent of pay
- Allow, but not require, employer contributions to the Supplemental Retirement Plan

In addition, the RLC submitted a letter to the Executive Board of the Legislative Research Council stating that no action regarding Class B would be taken during the upcoming year.

Two new issues were introduced and analyzed by the Retirement Laws Committee during their Sumer Study. The first would have repealed the Class A alternate formula while the second would have improved the Special Early Retirement requirements from a Rule of 85 to a Rule of 80 for Class A members. After hearing concerns from SDRS that these issues should be considered by the SDRS Board of Trustees in accordance with SDRS' long-standing working relations with the RLC, the Retirement Laws Committee referred both proposals back to the SDRS board for further evaluation.

SDRS Actions

As required by the Concurrent Resolution, the SDRS board made a report to the Executive Board of the Legislative Research Council recommending a mandatory, uniformly implemented increase in Class A contribution rates. The board also recommended that the additional revenue be used to increase the Class A benefit formula.

In addition, the SDRS Board of Trustees issued a special report to the Retirement Laws Committee supporting the change in Special Early Retirement eligibility requirements for Class A members to the Rule of 80 and the rationale for the continuation and improvement of the Class A alternate formula.

2000 Legislative Proposals

The board's legislative proposals effective July 1, 2000, were to:

- Increase the benefit multipliers by .075 percent for all SDRS active and retired members for credited service before July 1, 2002
- Improve the Special Early Retirement eligibility provisions for Class A members to the Rule of 80 from the Rule of 85

The first proposal passed. However, the board's second proposal, which was also the RLC's summer recommendation, to improve Special Early Retirement was defeated. Although passed out of the Senate by a vote of 35 to 0, this legislation was referred to the House Appropriations Committee rather than the House Retirement Laws Committee, tabled, and never considered by the House Retirement Laws Committee.

Additional legislative proposals that were the result of the RLC Summer Study were introduced by the RLC as follows:

- Increasing both Class A member and employer contributions by 1 percent of pay effective July 1, 2002 (supported by the board of trustees and passed)
- Permitting employer matching contributions to the SRP (hog-housed to require the independent actuarial review discussed below)

However, two other pieces of proposed legislation came as a surprise.

- The first was a transfer of responsibility for selection of the Supplemental Retirement Plan's investment alternatives from the SDRS Board to the South Dakota State Investment Officer. From the commencement of the Supplemental Retirement Plan in 1987, the performance of the board-selected investment alternatives has been exemplary relative to appropriate capital market benchmarks.
- The second directed the Retirement Laws Committee to conduct an independent actuarial review of SDRS focusing upon issues of equity regarding member benefits, including, but not limited to:
  - The Class A alternate formula
  - Class differences
  - Length of service issues
  - Purchase of credited service
  - Cost of living allowance
  - Death and disability benefits
  - Married members
  - Members with younger spouses
  - Life expectancy
  - Early retirement, and
  - Reemployment after retirement

An approved actuary hired by and reporting to the Retirement Laws Committee carried out this study.

In both cases, the Legislature bypassed the process that allows the board to analyze the bill, gather member input, and then present its comments.

Benefit Improvements

In spite of the mixed results of the 2000 Legislative Session, SDRS benefits for all active and retired members were substantially improved (an average of 5 percent) for credited service before July 1, 2002.

Turning the Corner on a New Century

2001—2003

Investment Performance

The new century brought with it a dramatic and far-reaching turn of events—financial markets that had been producing double-digit returns fell into a sharp decline. After 20 years of averaging 17.4 percent earnings, the S & P 500 had lost approximately one-third of its value by the end of fiscal year 2002. This trend continued until the later part of fiscal year 2003, when the S & P began a recovery that ultimately brought the year to a close with a slight gain.

The SDRS Trust Fund also suffered during this period of weak financial markets, absorbing a loss of $531 million in fiscal year 2002. Despite this 10 percent decrease in value, SDRS remained financially strong. Its funded ratio of 101 percent, as of June 30, 2002, compared very favorably to an average funded ratio of 76 percent among state retirement systems nationwide. During this market downturn, the trust fund's reserve functioned as designed, its assets sustaining the financial viability of the system despite investment losses.

The economic outlook improved slightly in 2003, with the S & P 500 recording a very small gain (0.3 of one percent) for the fiscal year. Although still well below the actuarial assumption of 8 percent, SDRS' investment return of 5 percent for fiscal year 2003 outperformed most major market indices. The system's funded ratio also improved, rising from 2002's level of 96.7 percent to 97.2 percent in 2003.

Change in Administration

In 2003, Al Asher, who had served as administrator for 33 years, and John Storsteen, who was the deputy administrator for 18 years, retired. After a nation-wide search, the Board of Trustees appointed SDRS' financial officer, Rob Wylie, as the second administrator in the system's history.

Increase in the Class A Benefit Formulas

After nearly three decades of fixed contribution rates, in 2002 the Legislature took the initiative to increase Class A contributions to SDRS by 2 percent of pay—1 percent from employees and 1 percent from employers. These additional contributions allowed a commensurate increase in the base Class A Standard Formula, from 1.3 percent to 1.55 percent. The base Class A Alternate Formula also increased from 2.0 percent to 2.25 percent. This legislative initiative was crucial to realizing the board's goal of retirement income replacing 70 to 85 percent of income for all full-career members.

Equity Review

Because of their importance, equity issues have been the focus of a number of board and legislative studies. Over the years SDRS has revisited the topic to ensure that the system's benefits are equitable and consistent with the system's long-term goals. A legislative review was initiated in 2000 and became the subject of extensive discussions among the board and legislators in 2001. The review was unique in that the Legislature contracted directly with an actuarial firm, The Segal Company, as a means of corroborating the results of the board's past work.

Segal analyzed SDRS publications and position statements and interviewed legislators, SDRS staff, and the system's board chairman. In its testimony to the Retirement Laws Committee on October 16, 2000, the company confirmed that SDRS' benefits were consistent with the system's long-term goals and objectives. When questioned regarding equality of benefits for all members, Roderick Crane, Segal Vice President, said, "Because there might be benefit differences does not necessarily mean that there are benefit inequities." In its written benefit equity report, Segal stated:

SDRS generally provides substantially uniform benefits within the context of the current retirement benefits philosophy that establishes guaranteed retirement income as the primary goal. Like most defined benefit plans … SDRS does not guarantee equal benefits to all members, but does provide substantially equivalent benefits for most individuals who are similarly situated. (The Segal Company, Benefit Equity Study of the South Dakota Retirement System, page 3).

Board Recommends No Major Expenditures

In 2001 the board carried out an extensive analysis to determine the advisability of recommending major benefit improvements. After gathering data from the system's actuary and hearing testimony from the South Dakota Investment Council regarding investment returns, the board concluded that it would be imprudent to recommend a significant increase in benefits. In the years following the analysis, investment returns continued to fall, from a 1 percent return as of December 1, 2000, to a –4.9 percent return in fiscal year 2002. Although returns improved to 5 percent in fiscal year 2003, they were still well short of the 8 percent annual return necessary to meet the system's requirements. The board maintained its opposition to any proposal to increase benefits during the 2003 legislative session.

2001 Legislative Proposals

The board's legislative proposals, none of which were passed by the 2001 Legislature, were as follows:

- The board supported legislation providing for an equal increase in the Class A Standard Formula multiplier and the Class A Alternate Formula multiplier for all service earned after July 1, 2002. The standard formula multiplier would have risen from 1.3 percent to 1.55 percent and the alternate formula multiplier from 2.0 percent to 2.25 percent.
- This increase in benefits would have been funded by the increase in contributions for all Class A members beginning on July 1, 2002. The amount of that contribution increase would have been a total of 2 percent of pay—1 percent paid by members and 1 percent paid by their employers.
- This bill passed the Senate but was killed in the House Retirement Laws Committee in a four to one vote.
- As requested by the Retirement Laws Committee at the October 16, 2000, meeting, the board proposed amending special early retirement for Class A members. This bill was intended to change the rule of 85 to a rule of 80, while continuing a minimum retirement age of 55. If passed, it would have meant that a Class A member with a combination of age and years of credited service that added up to 80 could retire without a benefit reduction.
- Legislation creating the rule of 80 passed the Senate, was passed out of the house Retirement Laws Committee with no recommendation, and was then "hog-housed" in the House to become a bill requiring an interim study of SDRS. The "hog-housed" bill subsequently failed in the Senate.

- The board proposed the creation of a special dividend account for all SDRS members. Legislation supporting the proposal would have allowed the board to establish a defined-contribution dividend account for all SDRS members, active and retired. The dividend amount would have been proportionate to the total contributions a member (and the member's employer) had made to SDRS. The board, with the approval of the Retirement Laws Committee, would have had the option to fund the dividend account in any given year.

  The bill passed the Senate but was killed in the House Retirement Laws Committee in a five to zero vote.

In addition, the board had requested, and the governor recommended in his FY 2002 budget, an increase to the SDRS staff by three full-time employees. The Appropriations Committee refused the request.

In action taken in October 2001, the Retirement Laws Committee recommended that the board of trustees study the issue of retire/rehire and report its discussions and any proposed solutions to the committee. In response, the board reviewed policies in other states; solicited additional comments and opinions from Retirement Laws Committee members; heard testimony from individuals representing school districts, employer and employee associations, and retirees. After extensive discussions and analysis, the board concluded that additional time was necessary to gather more comments from constituent groups. Consequently, it summarized its findings to date in a memo to the committee and proposed making a final recommendation during the next year.

The critical issue for SDRS in the 2002 legislative session was resolved by the passage of HB 1033, which improved the Class A benefit formulas. Paid for with increased contribution rates, the improvement moved the Class A Standard Formula multiplier from 1.3 percent to 1.55 percent and the Class A Alternate Formula multiplier from 2.0 to 2.25 percent for credited service after July 1, 2002. Consequently, a permanent increase in the multipliers would apply to all Class A credited service earned after that date. Without the change, the standard formula would have had a multiplier of only 1.3 percent. The change increased these benefits by 20 percent after July 1, 2002.

The 2002 session also brought a solution to the funding of the Class A Alternate Formula. Under the compromise, employers pay the full cost of the alternate formula by contributing an additional 6.2 percent on that portion of salary exceeding the maximum taxable compensation for Social Security. In 2002 the maximum taxable compensation was $84,900.

For the second consecutive year, the SDRS board did not recommend benefit improvements (except in the Class A Standard and Alternate Formulas that were funded by increased contributions). This decision was based on the current economic environment and the investment performance of the SDRS Trust Fund, managed by the South Dakota Investment Council, which fell well below the assumed return of 8 percent.

2002 Legislative Proposals

The following is a summary of the retirement-related bills introduced during the 2002 session:

- The board proposed legislation that revised certain SDRS provisions to comply with the Federal Economic Growth and Tax Relief Reconciliation Act of 2001. The 2001 Tax Act allowed members to acquire credited service by transferring retirement dollars from the SDRS Supplemental Retirement Plan (SRP), other 457 plans or 403 (b) plans into SDRS. This proposal (HB 1032) passed both the House and Senate unanimously with an emergency clause that allows members to take immediate advantage of the portability provisions.

- The board proposed legislation that increased the standard base benefit for Class A members to 1.55 percent and the base benefit of the Class A Alternate Formula to 2.25 percent for credited service earned after July 1, 2002. The increases would be paid with additional contributions from Class A members, also beginning on July 1, 2002. The bill also implemented a compromise that fully funds the Class A Alternate Formula with dollars contributed exclusively by employers. This proposal (HB 1033) passed both the House and Senate unanimously.

Non-board Proposed Legislation

- HB 1065 would have increased the number of retiree representatives on the SDRS board from one to three. The bill passed the House, but failed in the Senate.
- HB 1093 would have prohibited members from future participation in SDRS if they are receiving an SDRS retirement benefit and return to full-time employment with an SDRS employer. The bill passed the House, but failed in the Senate Retirement Laws Committee.
- HB 1178 would have established a defined-contribution account for members that could have been funded by a transfer of sick leave paid upon termination of employment, a transfer of the proceeds of IRAs, and dividends based on favorable experience of the system. The bill failed in the House Retirement Laws Committee.
- HB 1244 would have allowed up to $30 million of the assets of SDRS to be invested in venture capital in South Dakota. The bill failed in the House Retirement Laws Committee.

2003 Legislative Proposals

The following is a summary of retirement-related bills introduced during the 2003 session:

- The board proposed allowing certain law enforcement officers to convert certain Class A credited service to Class B Public Safety credited service. Senate Bill 14 passed both the Senate and House unanimously.
- The board proposed revising the deadline for filing for retirement benefits and delaying the commencement date of retirement benefits until final contributions are received. Senate Bill 15 was amended by the Senate Retirement Laws Committee to delete the revised filing deadline. Senate Bill 15, as amended, passed the Senate unanimously. The House Retirement Laws Committee deferred Senate Bill 15, as amended, to the 41st legislative day, thus ending its consideration in the 2003 session.
- In response to requests from the Retirement Laws Committee, the board continued its study of the retire/rehire issue and proposed Senate Bill 16, a cost-neutral solution to retire/rehire. Senate Bill 16 passed the Senate, but was deferred by the House Retirement Laws Committee to the 41st legislative day, thus ending its consideration in the 2003 session.

Non-board Proposed Legislation

- Senate Bill 55 permitted the Association of School Administrators to become a participating unit in SDRS and also permitted the limited purchase of non-public service for non-profit entities. Senate Bill 55 was not opposed by the board. Senate Bill 55 passed the Senate but was tabled by the House.
- House Bill 1188 was virtually identical to Senate Bill 55 and passed both the House and Senate.
- House Bill 1252 would have reduced the benefit formula multipliers of Class A and Class B Public Safety members for credited service starting after July 1, 2003. This legislation was tabled by the House Retirement Laws Committee.

Fiscal Stability, Commitment to Customer Service

2004—2008

Under its new administration, SDRS set as its goals continued fiscal responsibility and delivery of outstanding customer service. Placing member convenience at the forefront, SDRS restructured its regional meetings to consolidate educational presentations, increase staff involvement, and expand individual consultations with retirement counselors. To make member account information and retirement planning quick to access and easy to use, the system added an interactive section to its redesigned website. SDRS also developed a training program for authorized agents to improve their efficiency and effectiveness in linking SDRS with members in the workplace.

Guided by its mission to provide members and their families with needed benefits at retirement, disability, or time of death, SDRS continued its ongoing study of its plan design. In 2004 the board initiated a review of SDRS' financial status and benefit practices with the goal of ensuring sustained fiscal health and equitable distribution of benefits. The board also undertook its periodic assessment of the actuarial assumptions used to project SDRS' financial strength. By reviewing assumptions every five to seven years, the board is able to track emerging economic patterns and make the adjustments necessary to refine the system's financial projections. Although investment returns in fiscal year 2004 were sharply higher than in the previous three years, the board sought to maintain the system's funded status, contribution rates, and benefit levels by selecting lower actuarial assumptions in areas such as salary growth, investment return, and the rate of inflation. The board also slightly adjusted several demographic assumptions, such as age at retirement and the rate of disability.

As SDRS marked its 30th anniversary, the system cited the following circumstances as the basis for confidence in its ability to cope with future financial conditions:

- SDRS benefit levels have increased by 100 percent over the past 20 years and are currently competitive with other public systems across the nation.
- The system's funded level is among the highest of public plans nationwide.
- Legislative changes in 2004 reduced the system's unanticipated costs by modifying the number of plan provisions.

Investment returns for fiscal year 2005 exceeded the revised actuarial assumption of 7.75 percent. The trust fund continued to grow, increasing both the Reserve for Funding Long-term Goals and the cushion available to protect SDRS against future unfavorable experience. At the end of fiscal year 2005, SDRS' market value funded ratio continued to be among the highest in the country, more than 25 points above the national average of 83 percent.

In 2006, investment returns of 13.11 continued to strengthen the system's fiscal health and maintained its standing among the best funded public retirement systems in the country. The robust earnings contributed to rebuilding the system's reserve.

SDRS continued to improve customer service.

- To encourage member communication, the SDRS office acquired a toll-free telephone number.
- To safeguard members' identies, the system instituted its own number identification system as an alternative to using Social Security numbers.
- To increase the value of the online calculator, SDRS expanded its website to provide members personalized information automatically.

- To educate members about retirement issues, SDRS maintained its schedule of regional presentations and individual counseling sessions and participated in benefit fairs, financial planning days, and other special visits as requested by SDRS units.
- To reduce members' tax burden at termination of employment, SDRS loosened eligibility requirements for participating in the Special Pay Plan, resulting in an enrollment of 475 at the end of fiscal year 2006.

2004 Legislative Proposals

The following is a summary of the retirement-related bills introduced during the 2004 session. The SDRS board proposed nine measures. The bills were all passed by the Legislature and signed into law.

- HB 1032 established new caps on a member's final average compensation, limiting the amount of increase in the compensation used in the last quarter and last year of employment to calculate a member's retirement benefit. HB 1032 also changed the definition of compensation to exclude lump sum termination payments, thereby excluding both the employer and employee from paying SDRS contributions on the payment amount.
- HB 1033 established the Special Pay Plan, which is tax qualified under IRS law. The plan may accept only termination payments and the payments are deferred from federal income taxes, while Social Security withholdings are eliminated.
- HB 1034 increased the cost of purchasing optional spouse coverage to 1.2 percent of pay.
- HB 1035 instituted new minimum and maximum rates for interest paid on accumulated contributions. The maximum rate is set at the actuarial assumed investment rate, and there is no minimum rate. The rate is established on a yearly basis and will remain no greater than 90 percent of the 91-day T-bill rate for the prior calendar year.
- HB 1036 tied the cost of purchasing credited SDRS service to an actuarially determined sliding scale based on the member's age. With this adjustment, purchases of credited service would fully cover the program's cost.
- HB 1037 revised the benefit payment and membership status of members who retire and then return to employment with a participating SDRS employer. The new provisions mean that members who retire and then return to covered SDRS employment receive total benefits comparable to those who do not.
- HB 1038 established a consistent calculation for compensation in determining all benefits. With the enactment of HB 1038 the member's final average compensation will be used to calculate retirement, disability, and survivor benefits.
- HB 1039 changed the definition of "vested" to require three years of contributory service instead of credited service in order to be eligible for retirement benefits and non-job-related disability benefits.
- HB 1040 updated the requirements for SDRS to report the funded status of the system to the Governor and Legislature, and clarified conditions that trigger remedial action.

Non-board Proposed Legislation

A measure (SB 65) to increase the number of retirees serving on the board and to grant voting status to the South Dakota Investment Office board representative failed in the Senate Retirement Laws Committee.

2005 Legislative Proposals

The 2005 Legislature approved five pieces of legislation proposed by the SDRS Board of Trustees. The most significant legislation reduced the cost of purchasing credited service for qualifying military personnel. The other four bills addressed technicalities and clarified existing laws concerning the Special Pay Plan, eligibility for SDRS benefits, and retirees who return to SDRS-covered employment.

- HB 1013 moved laws pertaining to the Special Pay Plan to their own chapter in the South Dakota code.
- HB 1014 amended the Special Pay Plan to be in full compliance with IRS qualification standards.
- HB 1015 allowed SDRS members who were called to active federal duty between February 1, 2002, and September 30, 2004, to purchase credited service at rates in effect prior to July 1, 2004.
- HB 1016 clarified that only members who retired under normal or special early retirement with an unreduced benefit and subsequently returned to SDRS-covered employment before July 1, 2004, are "grandfathered" and continue to receive the annual cost-of-living benefit improvement.
- HB 1017 clarified that noncontributory service is included in meeting the eligibility requirements for SDRS benefits.

2006 Legislative Proposals

The 2006 Legislature passed all six measures that the board recommended.

- SB 5 changed participation provisions for the Special Pay Plan to allow members to join the month before they turn age 55 to coincide with eligibility for retirement benefits and changed the required minimum dollar amount from $2,000 to $600.
- SB 6 added definitions for (1) comparable level position, (2) covered employment, (3) military service, (4) other public service, and (5) plan year, for use in the SDRS chapter of the South Dakota Codified Law.
- SB 7 clarified language describing the SDRS level income statute to promote member understanding of the payment option.
- SB 8 changed SDRS law to precisely mirror the mandates in the South Dakota Uniform Transfers to Minors Act regarding the payment of proceeds to custodians or conservators on behalf of minors. SB 8 also clarified that the designation of "legal guardian" does not qualify as custodian or conservator except by separate judicial appointment.
- SB 9 clarified provisions throughout SDRS law, SRP law, and SPP law regarding the hierarchy of recipients of lump-sum payments made after the death of a member who has not designated a beneficiary.
- SB 10 established in SDRS law five conditions that authorize SDRS to terminate a member's disabled status. SB 10 also clarified the employer's role in the disability determination process.

Non-board Proposed Legislation

SB 16 was introduced by legislators without the support of the SDRS board. The bill prevented retired members returning to SDRS employment from participation in SDRS during re-employment. The bill died in the Retirement Laws Committee.

2007 Strategic Planning

Pressure to address the fiscal problems of Social Security, escalating healthcare costs, and lengthening life expectancies continue to shape the future landscape of retirement. To prepare for the changes likely to occur in the coming decades, the SDRS Board of Trustees undertook a two-year strategic planning study to review and develop:

- The long-term goals of SDRS over the next five, 10, and 20 years
- Communication concerning retirement income opportunities through SDRS, the SRP, and the SPP
- Member education regarding individual retirement income replacement needs and the importance of personal savings
- Possible new approaches to retirement income

Member Education

Assuming a responsibility for preparing its members for possible future conditions, SDRS sought to improve and expand its educational outreach through Retirement Income Management workshops. Responding to comments from participants in regional seminars, these small-group workshops were designed to:

- Address smaller groups
- Increase interaction among workshop presenters and participants
- Increase participants' hands-on involvement through personalized exercises
- Attract more mid-career members

2008 Legislative Proposals

The 2008 Legislature approved six pieces of legislation proposed by the SDRS Board of Trustees:

- HB 1019 proposed a benefit formula increase of .075% for all members. Excellent investment returns and careful management of the SDRS trust fund over the past several years prompted the first benefit formula increase in eight years. HB 1019 received unanimous support from the 2008 Legislature.
- HB 1020 established an automatic enrollment feature within the SRP. With the uncertainty that surrounds future Social Security and Medicare funding and the rising cost of healthcare, SDRS continues its efforts to encourage personal savings.
- HB 1021 created the SDRS Supplement Pension Benefit (SPB). In another effort to encourage additional savings, the SPB offers an opportunity for members to convert monies they contributed to the SRP and/or SPP into a guaranteed lifetime benefit, including survivor benefits and cost-of-living increases.
- HB 1022 revised SDRS' contested case provisions. This bill removed the board from the administrative appeals process and placed greater emphasis on decisions by hearing examiners.
- HB 1023 provided "clean-up" language and consistency for certain provisions pertaining to SDRS, SRP, and SPP.

- HB 1024 changed the definition of “child” from age 18 to age 19 for family and disability benefits.
- HB 1025 brought the annual benefit improvement for certain firefighters in line with the improvement for other members.

Benefit Improvements

- HB 1019 increased the benefit formula multipliers for each membership class as follows:
  - Class A—1.7 % of Final Average Compensation for service prior to July 1, 2008, plus 1.55% of Final Average Compensation for service after July 1, 2008.
  - Class B Public Safety—2.4% of Final Average Compensation for service prior to July 1, 2008, plus 2.0% of Final Average Compensation for service after July 1. 2008.
  - Class B Judicial—3.733% of Final Average Compensation for service prior to July 1, 2008, plus 3.333% of Final Average Compensation for service after July, 1, 2008 for the first 15 years of Class B Judicial credited service plus 2.4% of Final Average Compensation for service prior to July 1, 2008, for service after July 1, 2008, in excess of the first 15 years.

Economic Downturn, Maintaining Sustainability 2009-2012

As a result of the housing market crisis, the stock market collapsed in October 2008. The months that followed were very volatile. Global markets hit historic lows in March 2009; SDRS was not immune. As SDRS closed its books on fiscal year 2009, losses were close to 20 percent, causing SDRS' funded ratio to drop below 80 percent for the first time in 25 years. While SDRS managed to perform above the market average, no system can lose 20 percent of its value in a single year without suffering serious consequences.

According to law (SDCL 3-12-122), the board must report to the Governor and Retirement Laws Committees if the contributions do not meet the actuarial requirement for funding, the funded ratio is less than 80 percent, or the market value of assets is less than 90 percent of the actuarial value of assets. While action is required after any of these conditions exists for three consecutive years, the board determined it prudent and responsible to consider options to bring the system back into balance sooner rather than later to protect SDRS if investment returns did not rebound in the near future.

2009 Legislative Proposals

The 2009 Legislature passed two of the three pieces of legislation proposed by the SDRS Board of Trustees:

- HB 1013 provided "clean-up" language to revise certain statutes pertaining to SDRS, SRP, and SPP that had minor inconsistencies, errors or points of confusion, or were slightly out of compliance with federal law.
- HB 1014 removed a restriction on the purchase of certain credited service, allowing members who have at least five years of contributory service to purchase nonqualified permissive service credit as defined in and pursuant to the provisions of §415(n) of the Internal Revenue Code.
- A third piece of legislation, HB 1012, was proposed to include State Brand Board investigators in Class B public safety membership. This bill was tabled by the Retirement Laws Committee.

2010 Legislative Proposals

During the 2010 Legislative Session, the SDRS Board of Trustees proposed corrective actions to bring the system's funded ratio back up to 80 percent and also brought legislation to limit benefit subsidies in the retire/return-to-work provisions and optional spouse coverage. The 2010 Legislature approved the four pieces of legislation proposed by the board.

- SB 18 pertained to retired members of SDRS who return to covered employment. With a large number of retire/rehires, the average age of retirement was younger, resulting in benefit payments made over a longer time period. The retire/return-to-work provisions at the time were costing over $5.2 million in unanticipated costs annually. Additionally, enhanced IRS compliance efforts were focusing on public pension plans and valid termination of employment practices. To make the retire/return-to-work provisions cost neutral, and to protect the plan from IRS compliance measures while still permitting retired members to return to work to meet employer workforce needs, SB 18 proposed to revise the following provisions and declare an emergency.

    - A minimum three-month termination period
    - A 15 percent benefit reduction during the reemployment period

  - No additional benefit accrual; employee contributions during the reemployment period would be allocated to the member's SRP account and employer contributions would be allocated to SDRS to offset unanticipated costs
  - Class B public safety retirees that return to work as Class A members are exempt from COLA and benefit reductions, but are subject to the three-month minimum termination period and additional benefit restrictions
  - An emergency clause with an April 1, 2010, effective date
- SB 19 increased contributions for the optional spouse coverage from 1.2 percent of compensation to 1.5 percent and closed the program to new enrollments.
- SB 20 established corrective actions through the revision of a multitude of SDRS provisions to reduce future system costs and bring SDRS back into actuarial balance. The result of SB 20 included the following:
  - Elimination of all pro-rated benefits and interest credits
  - Reduction in the amount of refundable employer contributions and interest for members terminating service after July 1, 2010; the reduction went from 75 percent to 50 percent of employer contributions for non-vested members and 100 percent to 85 percent of employer contributions for vested members.
  - Reduction in the annual COLA for one year from 3.1 percent to 2.1 percent and thereafter indexed to CPI based on the SDRS funded ratio, ranging from a 2.1 percent minimum to a 3.1 percent maximum as follows:
    - If the SDRS market value funded ratio is 100 percent or more: 3.1 percent COLA
    - If the SDRS market value funded ratios is 80 percent to 99.9 percent: index with the CPI
      - 90 percent to 99.9 percent funded: 2.1 percent minimum and 2.8 percent maximum
      - 80 percent to 89.9 percent funded: 2.1 percent minimum and 2.4 percent maximum
    - If the SDRS market value funded ratios is less than 80 percent: 2.1 percent COLA
- SB 21 strengthened and broadened the provisions that the SDRS Trust Fund is retained for the exclusive benefit of SDRS members and their beneficiaries, defined social investment, and prohibited any social investment of SDRS assets.

Class Action Lawsuit

In June 2010, a retired Rapid City judge filed a Class Action lawsuit against SDRS that challenged the constitutionality of the 2010 Legislature's action which revised the COLA to be indexed to the CPI and based on the SDRS funded ratio. The plaintiff claimed the legislation unlawfully modified a contractual right to an unalterable annual 3.1 percent COLA.

Following litigation, on April 11, 2012, the State of South Dakota Sixth Circuit Court Judge Mark Barnett upheld the Legislature's modification of the COLA. The Honorable Mark Barnett ruled that the plaintiff had no contractual right to a guaranteed "forever" 3.1 percent COLA. The trial court determined that the Legislature has the authority to modify the COLA in order to maintain the financial integrity of the system.

2011 Legislative Proposals

The SDRS Board of Trustees proposed three pieces of legislation to the 2011 Legislature. All three pieces were approved.

- HB 1022 updated SDRS statutes to coordinate with federal law regarding military leave of absence by adoption of certain provisions under USERRA and the HEART Act regarding service credit provisions, death and disability benefits, and withdrawals from the SRP.
- HB 1023 clarified disability and family benefit provisions regarding the birth of a child and procedures for when a child reaches certain ages. Members drawing disability benefits would receive an increase in benefits when a new child is born (limited to four children total). HB 1023 further clarified that family benefits are reduced when each child turns 19 and stop when the youngest child turns 19. Additionally, for family benefits paid to a conservator on behalf of a child, those benefits would be paid directly to the child when the child legally becomes an adult at age 18.
- HB 1024 updated SDRS statutes pertaining to vacancies on the SDRS Board of Trustees. A trustee who resigns or otherwise cannot serve does not continue service until a successor is appointed. Additionally, an appointed trustee is allowed to fill the remainder of the term for which he or she was appointed.

2012 Legislative Proposals

Three pieces of legislation proposed by the Board of Trustees were passed by the 2012 Legislature.

- SB 29 authorized the SDRS Board of Trustees to establish a Roth contribution plan within the SRP.
- SB 30 provided for an alternative benefit enhancement methodology based on investment performance. As a result of this legislation, SDRS will begin developing the details necessary to form an alternative benefit improvement structure that mitigates risk within SDRS.
- SB 31 clarified and corrected certain provisions relating to SDRS, SRP, and SPP.

Experience Studies

In 2012, the SDRS Board of Trustees completed two periodic studies concerning SDRS demographic and economic assumptions. The first study reviewed SDRS' past experience to determine how actual membership and fiscal results compared to assumptions. While most results were close to the assumptions, some refinements were advisable as the board planned for the future. The second study focused on sustainability. In evaluating the system's long-term sustainability, the board determined it would be prudent and responsible to lower the assumed investment return. Thus, the investment return assumption was lowered from 7.75 percent to 7.25 percent per year for a five-year period (through June 30, 2017) and 7.50 percent thereafter. The change in investment return assumption, as well as recommended changes in other assumptions, were made effective July 1, 2012.

A Truly Fully Funded System
2013

Investment Returns and Board Actions “Pay Off”

SDRS’ funded status is a measure that compares assets of the trust fund to the liabilities of the plan, which are benefits owed to its members. For fiscal year ending June 30, 2013, the SDRS trust fund realized investment earnings of 19 percent (net of fees). Because of the outstanding investment earnings that were achieved by the South Dakota Investment Council, the system’s funded status increased from 93 percent as of June 30, 2012, to 103.2 percent as of June 30, 2013, based on the market value of assets.

At the end of fiscal year 2012, SDRS’ funded status of 93 percent meant that accrued benefit payment obligations exceeded the value of the funds available to pay them—an unfunded obligation. In September 2013, the SDRS Board of Trustees allocated a portion of the fiscal year 2013 investment earnings to pay off the unfunded obligation, thereby fully funding the system at 100 percent. For the first time in its history, SDRS is fully funded on both a market value basis and an actuarial value basis.

Additionally, these results were achieved based on the revised actuarial assumptions that were adopted July 1, 2012, to more accurately estimate increasing life expectancies and other demographic and fiscal expectations. With a refreshed outlook of future expectations and a conservative assumed investment rate of return, SDRS continues to be one of the most financially sound public employee retirement systems in the nation.

2013 Legislative Proposals

The 2013 Legislature passed all four pieces of legislation proposed by the SDRS Board of Trustees:

- HB 1024 allowed permanent, full-time employees of the city of Sioux Falls hired after June 30, 2013, to be members of SDRS. Any city of Sioux Falls employee hired prior to July 1, 2013, is excluded, unless the person separates from service and is subsequently rehired after the effective date of July 1, 2013.
- HB 1025 clarified the timeframe in which the SDRS Board of Trustees and Legislature may take corrective action if the financial integrity of the system is threatened. The board may recommend and the Legislature may take action if any of the financial conditions outlined in SDCL 3-12-122 exist as of the latest actuarial valuation and the board and Legislature are required to take action if any condition exists for three consecutive years.
- HB 1026 defined the timeframe used in determining the maximum retirement benefits a member may receive each year as the plan year (July 1 to June 30), as well as updated references to the Internal Revenue Code.
- HB 1027 “cleaned up” terminology relating to the SDRS Special Pay Program (SPP). The term ‘participant’ replaced ‘member’, as there are instances where a participant in the SPP is not a member of SDRS.

SDRS Reflects on 40 Years 2014

From its simple beginnings in 1974, SDRS grew substantially over forty years, proudly serving South Dakota's public employees and beneficiaries. Growth—sometimes phenomenal growth—became the hallmark of SDRS, and the proof is in the numbers.

Since 1974, SDRS blossomed into an economic powerhouse. The SDRS trust fund grew exponentially from $50 million in 1974 to over $10 billion in 2014. This growth was driven largely by superior investment performance. The annual investment rate of return averaged nearly 10 percent over the previous 20 years.

Annual benefits paid in 1974 totaled $3 million; by 2014, the amount of annual benefits paid soared to over $410 million. Nearly 90 percent of those benefits stayed in South Dakota, reaching every corner of the state. The growth of benefit payments resulted, in part, from benefit improvements made over the years. The initial standard benefit multiplier for Class A members was one percent in 1974. In 2014, the standard formula included an enhanced multiplier of 1.7 percent for service rendered prior to July 1, 2008, and a base multiplier of 1.55 percent for service after July 1, 2008. This translated to a greater income replacement for members at retirement. For example, a Class A member retiring in 2014 with 30 years of service would have an income replacement of 50 percent compared to 30 percent in 1974.

Membership also experienced considerable growth. Total membership in 1974 was 23,500, including 2,900 benefit recipients. By 2014, membership increased to over 77,000. Of that, over 24,000 members were receiving benefits. While membership grew by leaps and bounds, SDRS staffing levels remained fairly constant. In the early years, SDRS employed 27 full-time employees. In 2014, SDRS had 33 full-time staff members to assist members and carry out the administration of the system.

South Dakota Receives Recognition for SDRS Accomplishments

SDRS quickly rebounded after the Great Recession, thanks to the Board of Trustees' diligent work to protect the system and the outstanding investment returns during the recovery. SDRS' accomplishments did not go unnoticed. South Dakota received national recognition as an exceptional public pension plan.

The National Institute on Retirement Security (NIRS) conducted a study to assess the overall state and national economic impact of the benefits paid to retirees under public pension plans. The study found that SDRS benefit payments provided a significant economic contribution to South Dakota and the state's economy. In 2012, 26,000 residents of South Dakota received over $450 million in public pension benefits. The benefits distributed were estimated to support 6,450 jobs in the state and $887 million in total economic output. The study recognized South Dakota for having the highest total economic output per dollar of pension benefits paid, as well as the highest total economic output per dollar of taxpayer contributions to the plan. In short, the study showed South Dakota received the biggest bang for the buck.

The editors of iiSEARCHES announced SDRS and the South Dakota Investment Council as U.S. Mid-Sized Public Fund of the Year. This award recognizes pension funds that have excelled in their investment strategy, implementation, and performance. Low fees and strong investment returns supported South Dakota's place as the best mid-sized public fund based on fiscal year 2013 results.

The Loop Capital Markets completed an in-depth review of 247 public pension plans across the United States. The report, which is based on fiscal year 2013 data, recognized South Dakota as one of only two states that had achieved a 100 percent funded status (accumulated plan assets equal to all current liabilities). South Dakota has no unfunded actuarial accrued liability (UAAL), which is an important measure in evaluating the actuarial soundness of a pension plan.

2014 Legislative Proposals

The 2014 Legislature passed four pieces of legislation proposed by the SDRS Board of Trustees:

- SB 40 allowed the surviving spouse of a member who died before retirement to make an election to begin receiving an early surviving spouse benefit as early as age 55, payable at an actuarially reduced rate of five percent for each full year, prorated on a monthly basis, between the early election date and the spouse's 65th birthday. This legislation had a delayed implementation date of July 1, 2015.
- SB 41 removed several outdated job titles from SDRS law regarding the Department of Corrections penitentiary correctional staff and put in place a mechanism for the laws governing retirement to adjust with any changes in penitentiary correctional staff titles.
- SB 43 revised how disability benefits, as well as certain survivor benefits, are calculated in order to provide a steady and predictable stream of benefit payments to the member and the member's family. The disability benefit would be the greater of 25 percent of the member's final average compensation at the time of disability or the unreduced accrued retirement benefit at the time of disability. Upon the death of a disabled member the member's benefit continues for family benefit purposes and for eligible surviving spouse benefits when the spouse reaches age 65. Additionally, any family benefits and surviving spouse benefits payable upon the death of an eligible contributing member would be calculated and administered in a similar fashion. This legislation had a delayed implementation date of July 1, 2015.
- During the 2014 Legislative Session, an appropriation was made to fully fund the Cement Plant Retirement Plan and then consolidated it into SDRS. The Cement Plant Retirement Plan had a total membership of 337 members as of June 30, 2013. The members remained under the existing benefit structures of the Cement Plant Retirement Plan. The consolidation did not have any material actuarial impact on SDRS because the Cement Plant Retirement Fund was fully funded prior to consolidation.
- SB 42 provided vested members of the Cement Plant Retirement Plan who are not receiving monthly benefits the option to elect a lump-sum rollover payment in lieu of monthly retirement benefits. This allowed Cement Plant Retirement Plan members to choose a lump sum payment rather than waiting a number of years for what may be a small monthly benefit, lessening the administration of the Cement Plant Retirement Fund and potentially shortening the benefit stream.

A New Generation of Members, Aligning Objectives 2015-2017

As SDRS grew into a mature system, the Board of Trustees continued to focus on conservative fiscal operations, prudent benefit designs, and long-term sustainability. Even though SDRS continued to be financially strong, the board, as stewards of the system and its membership, was intensely focused on improving the system's benefit design to make SDRS even stronger.

2015 Legislative Proposals

While the 2014 legislative package was in the process of being implemented and discussions were continuing on ways to improve the SDRS benefit design, the Board of Trustees proposed limited legislation to the 2015 Legislature, including minor changes to existing statutes. Five pieces of legislation were passed and signed into law.

- HB 1007 revised and updated several definitions and references in existing statutes.
- HB 1008 provided for a consistent refund methodology for members and their beneficiaries. For members who choose to refund their SDRS funds, the amount of the refund is determined by the date that contributory service concluded. Similarly, upon the death of a member, the amount of refund due to the beneficiary will be determined by the date that contributory service concluded rather than the member's date of death.
- HB 1009 limited the look-back period for the recovery of overpayments to the six-year period immediately prior to the discovery of the error.
- HB 1010 provided clarification related to surviving spouse benefits payable after the death of an active contributing member and corrected a statute reference.
- HB 1011 provided for automatic contribution increases for automatic enrollees of the SDRS Supplemental Retirement Plan.

A New Benefit Design for New SDRS Members

Through 2015, the board continued to examine retirement trends and SDRS' benefits. One trend that significantly impacts retirement systems is increasing life expectancies. Members and their spouses living longer puts a strain on retirement systems because benefit payments must be paid over a longer period of time. Maintaining a sustainable system is quite literally a balancing act since contributions and investment earnings must be sufficient to fund benefit obligations over the long term. Under the existing provisions, SDRS liabilities continued to increase as plan assets fell during market downturns. It was clear that changes needed to be made to the existing benefit structure for SDRS to be sustainable. The solution was a new benefit design for the next generation of SDRS members.

2016 Legislative Proposals

During the 2016 Legislative Session, three bills were introduced, passed, and signed into law. The most significant piece of legislation established a new benefit design.

- SB 13 created a new benefit structure for new SDRS members. The new benefit design restructured benefits at the same cost as the existing design, thereby avoiding new members subsidizing the benefits of existing members. The new design for new members also increased the likelihood of SDRS' sustainability by enhancing the hybrid features of SDRS. It addressed lengthening life expectancies, increasing market volatility, and evolving employer workforce objectives while bringing equity among the membership classes, between members who choose to retire early and those who do not, and between single and married members. The provisions for the new benefit design included:

- Normal retirement age of 67 for Class A and Class B Judicial members and 57 for Class B Public Safety members;
- No special early retirement
- Early retirement at age 57 for Class A and Class B Judicial members and age 47 for Class B Public Safety members, with a five percent reduction for each year the member retires prior to normal retirement age;
- Base benefit multiplier for Class A members of 1.8 percent; Class B multipliers remained the same;
- Flexible benefits through a Variable Retirement Account (VRA), funded by an annual contribution of up to 1.5 percent of compensation initially, credited with investment returns, and available to the member at retirement, disability, or death to supplement base benefits;
- COLA indexed to CPI and based on the SDRS funded status, with a 1.0 percent minimum and 3.1 percent maximum; and
- Single life benefit, and the option for married members to elect a reduced benefit at retirement to provide either a 60 percent or 100 percent benefit to their surviving spouse.

SDRS would continue as one plan with two different benefit designs—Foundation and Generational. Foundation members are any members who joined SDRS prior to July 1, 2017, including retirees and current members of the system. Generational members are any members joining SDRS on and after July 1, 2017.

- SB 14 revised certain provisions and repealed others to more accurately reflect the administration of SDRS.
- SB 15 provided that the executive director of SDRS is an ex officio voting member of the South Dakota Investment Council.

2016 Experience Analysis

The Board of Trustees' key objective is to manage the SDRS' benefits within its resources—the fixed statutory contributions made by members and employers and the investment returns earned by the South Dakota Investment Council. To accomplish this objective, the board relies on current information to project the long-term costs of benefits in order to determine SDRS' financial soundness and sustainability. Long-term cost projections require a number of actuarial assumptions about future unknown events. The most substantial actuarial assumptions relate to the economic issues affecting SDRS benefits, including the rate of investment return earned on SDRS assets, inflation, and member compensation increases.

An experience analysis was conducted in 2016 to compare of each assumption with actual experience. The goal is to adopt actuarial assumptions that individually and collectively provide the best estimate of future experience so the projections of current and future costs of SDRS benefits are as accurate and realistic as possible. Based on the 2016 experience analysis, the SDRS actuary recommended significant changes to several economic assumptions to better forecast SDRS costs. The recommended changes included:

- A reduction in the annual price inflation assumption from 3.25 percent to 2.25 percent,
- A reduction in the annual investment return assumption from 7.25 percent through June 30, 2017, and 7.50 percent thereafter, to 6.50 percent, and
- A reduction in the annual wage growth assumptions from 3.75 percent to 3.00 percent.

These recommendations reflected the general consensus that inflation and investment returns would remain low for an extended period and the SDRS economic assumptions should be aligned with those expectations. The recommendations were approved by the Board of Trustees.

Impact of 2016 Actuarial Assumption Changes

The 2016 actuarial assumption changes, while necessary to project future costs with more accuracy, were significant and resulted in a projection of higher SDRS costs and not meeting the Board's funding objectives. The funded status was projected to drop to 87 percent after the changes and the fixed, statutory member and employer contributions were less than the amount necessary to fund the benefit structure. The Board was required to recommend legislation in 2017 to bring SDRS back into alignment with the Board's funding objectives. After reviewing all SDRS benefits to ensure they were meeting the Board's benefit and cost objectives, the Board determined that the SDRS Cost-of-Living Adjustment (COLA) and Final Average Compensation (FAC) needed to be addressed.

- The goal of the COLA is to partially protect retirees from a loss of purchasing power due to inflation after retirement. Historically, SDRS has provided a COLA significantly in excess of inflation and the board's goal, but the ongoing costs to continue this practice were no longer affordable. Tying the COLA more closely to the annual inflation rate and the resources SDRS has available to pay for it would bring future costs in line with what can be afforded. The COLA eventually affects all SDRS members and, as such, making a change to the COLA structure was logical and equitable.

- Basing benefits on a member's FAC is important to ensure an adequate income replacement during retirement, but it can be costly because it provides benefits based on compensation near retirement, which may be significantly higher than the average salary earned over the course of an entire career. Adequate funding for benefits is dependent on predictable compensation increases throughout a member's career, coupled with sufficient time for the investment earnings to pay for the cost of higher benefits resulting from higher compensation.

  Most compensation increases taper off as members progress in their jobs, resulting in smaller, more predictable compensation increases as they approach retirement. However, some members receive late-career compensation increases resulting from intentional restructuring of pay or an attempt to include pay not previously considered in compensation, such as early retirement incentives. The practice of intentionally restructuring pay, resulting in unintended and excessive benefits to some members, is referred to as "spiking." Spiking creates subsidies, inequities, and higher costs for SDRS. Additionally, spiking tends to occur more frequently with higher-paid members, which exacerbates the subsidies and costs borne by SDRS and its members. Finding solutions to late-career spiking issues was necessary.

2017 Legislative Proposals

During the 2017 Legislative Session, four bills were introduced by the Retirement Laws Committee on behalf of the SDRS Board of Trustees. All four bills passed through each house of the Legislature and were signed into law by the Governor.

- HB 1016 revised the Cost-of-Living Adjustment (COLA) to vary directly and automatically with inflation, experience, and affordability. If SDRS is fully funded at 100 percent or greater, the COLA is equal to the change in CPI-W, with a minimum of 0.5 percent and a maximum of 3.5 percent. If SDRS is not fully funded, a restricted COLA maximum is calculated that limits the increases to the amount that can be afforded on a long-term basis. The COLA payable is then equal to the percent change in CPI-W, with a minimum of 0.5 percent and a maximum of the restricted COLA maximum.
- HB 1017 clarified and tightened the language relating to what is and is not considered compensation for SDRS purposes. Specifically excluded from compensation are employer-funded benefits, allowances, or reimbursements; payments in lieu of insurance; temporary pay not associated with additional duties; and payments that incentivize retirement. This bill also made the reporting of compensation that is inconsistent with the definition a Class 1 misdemeanor.
- HB 1018 revised the computation of Final Average Compensation (FAC) for Foundation member benefits from a three-year average to a five-year average, with a significant transition period. For retirements before June 30, 2021, the average of the highest three consecutive years of compensation out of the last 10 years would determine FAC. For retirements from July 1, 2021, to

June 30, 2022, FAC would be the average of the highest four consecutive years of compensation out of the last 10 years. For retirements after July 1, 2022, FAC would be the average of the highest five consecutive years of pay out of the last 10 years. Additionally, the 105 percent cap on compensation in the last quarter/average of the last four quarters was extended to each of the years used in the FAC calculation for Foundation members with contributory service after June 30, 2020.

- HB 1019 extended the timeframe for the Board of Trustees to recommend salary adjustments for the executive director from May 1 to July 1 and made revisions to be consistent with state salary policy.

2018 and Beyond: Continuing Commitment to Members

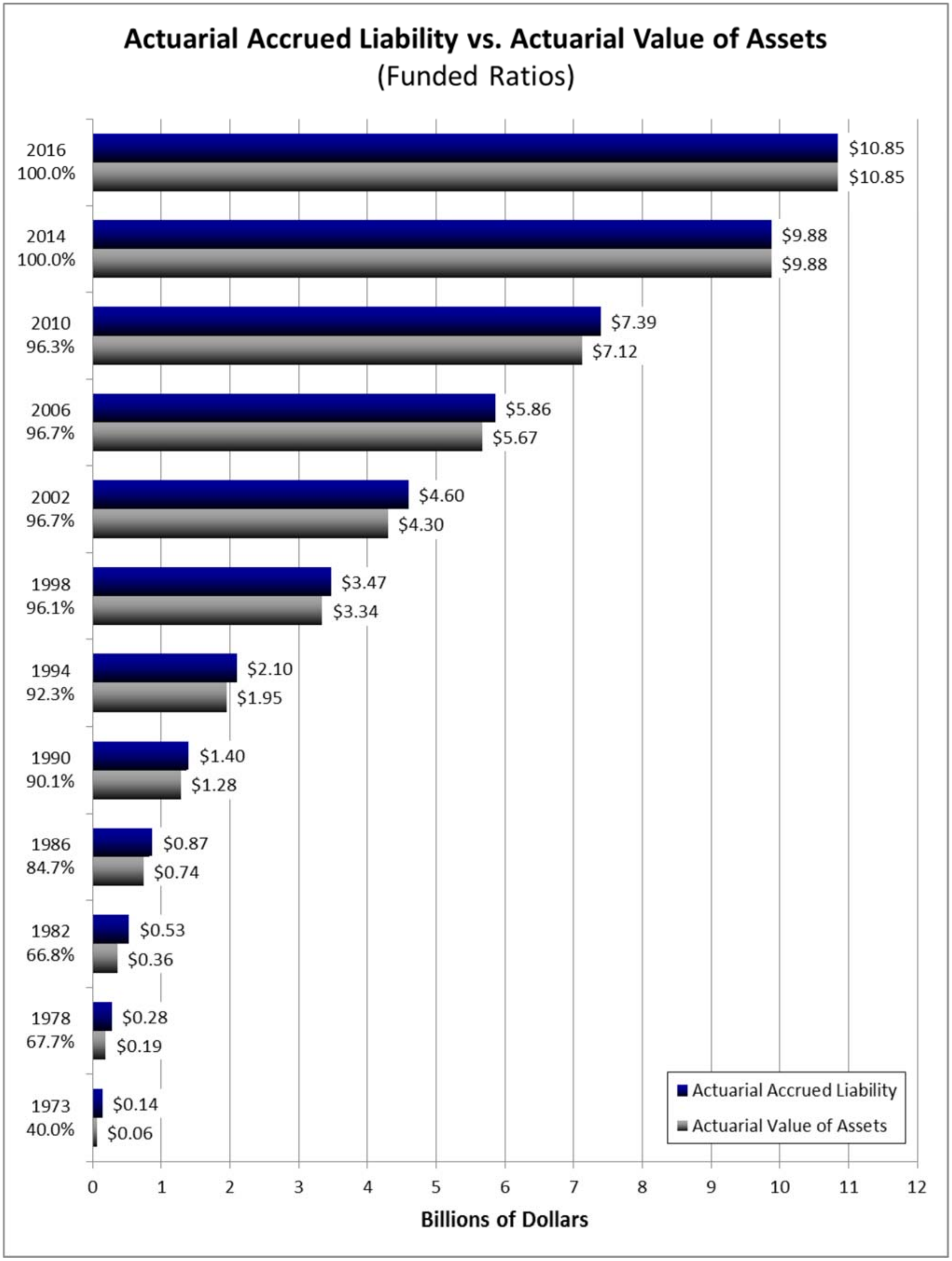
SDRS continues to be motivated by its mission to provide members and their families with needed benefits at retirement, disability, or death within available resources. SDRS and the Board of Trustees will continue to adapt its programs and plan provisions to address changing needs and economic conditions while upholding its commitment to outstanding member service and the fiscal responsibility necessary to ensure the long-term sustainability of SDRS.

A System Summary

From 1974 to 2016, SDRS has progressed from a fledgling plan to a mature system. The charts on this page and the next illustrate two measures of this maturing process. Steady improvements in benefits moved the normal cost of these benefits from 7.3 percent in 1982 to 10.5 percent of pay in 2016. In addition, the actuarial value of assets and actuarial accrued liabilities both grew from less than $56 million and $141 million, respectively, in 1974 to $10.85 billion and $10.85 billion in 2016.

	Normal Cost	Amortization & Interest	Expense	Total	Funding Period (Years)
1982	7.3%	2.8%	0.3%	10.4%	28
1984	7.0%	3.1%	0.3%	10.4%	18
1986	9.2%	1.0%	0.3%	10.5%	37
1988	9.1%	1.1%	0.3%	10.5%	6
1990	9.5%	0.7%	0.3%	10.5%	46
1992	9.0%	1.2%	0.3%	10.5%	16
1994	9.3%	0.9%	0.3%	10.5%	38
1996	9.3%	0.9%	0.3%	10.5%	30
1997	9.2%	1.0%	0.3%	10.5%	23
1998	9.3%	0.9%	0.3%	10.5%	22
1999	9.4%	0.8%	0.3%	10.5%	21
2000	8.9%	1.3%	0.3%	10.5%	20
2001	9.2%	1.0%	0.3%	10.5%	20
2002	11.2%	0.9%	0.3%	12.4%	20
2003	11.3%	0.8%	0.3%	12.4%	20
2004	11.6%	0.6%	0.3%	12.5%	20
2005	11.6%	0.6%	0.3%	12.5%	20
2006	11.2%	1.0%	0.3%	12.5%	20
2007	11.2%	1.0%	0.3%	12.5%	20
2008	11.2%	1.0%	0.3%	12.5%	20
2009	11.3%	0.9%	0.3%	12.5%	N/A*
2010	11.2%	1.0%	0.3%	12.5%	30
2011	11.2%	1.0%	0.3%	12.5%	30
2012	10.0%	2.2%	0.3%	12.5%	29
2013	9.9%	2.3%	0.3%	12.5%	N/A**
2014	10.5%	1.7%	0.3%	12.5%	N/A**
2015	10.5%	1.7%	0.3%	12.5%	N/A**
2016	10.5%	1.7%	0.3%	12.5%	N/A**

* Member and employer contributions were not sufficient to amortize the frozen unfunded actuarial accrued liability.
** The frozen unfunded actuarial accrued liability is $0.


Actuarial Accrued Liability vs. Actuarial Value of Assets
(Funded Ratios)
2016
100.0%
$10.85
$10.85
2014
100.0%
$9.88
$9.88
2010
96.3%
$7.39
$7.12
2006
96.7%
$5.86
$5.67
2002
96.7%
$4.60
$4.30
1998
96.1%
$3.47
$3.34
1994
92.3%
$2.10
$1.95
1990
90.1%
$1.40
$1.28
1986
84.7%
$0.87
$0.74
1982
66.8%
$0.53
$0.36
1978
67.7%
$0.28
$0.19
1973
40.0%
$0.14
$0.06
Actuarial Accrued Liability
Actuarial Value of Assets
0
1
2
3
4
5
6
7
8
9
10
11
12
Billions of Dollars

Foundation Member
History of Changes in Basic Plan Provisions

Provision	Status in 1974	Benefit Change
Benefit Formulas		
* Class A		
Standard	1.0%	1982 - 1.1% 1986 - 1.2% 1989 - 1.25% 1991 - 1.30% 1994 - 1.30% / 1.40% (for applicable years) 1997 - 1.40% prior to 1997/1.30% thereafter 1998 - 1.475% prior to 1998/1.30% thereafter 1999 - 1.55% prior to 2000/1.30% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2008 - 1.70% prior to 2008/1.55% thereafter
Alternate	2.0%	1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2002 - 2.325% prior to 2002/2.25% thereafter 2008 - 2.40% prior to 2008/2.25% thereafter
* Class B Public Safety	2.0%	1994 - 2.0% / 2.10% (for applicable years) 1997 - 2.10% prior to 1997/2.0% thereafter 1998 - 2.175% prior to 1998/2.0% thereafter 1999 - 2.25% prior to 2000/2.0% thereafter 2000 - 2.325% prior to 2002/2.0% thereafter 2008 - 2.40% prior to 2008/2.0% thereafter
* Class B Judicial	3.333% / 2.0%	1994 - 3.333% / 3.433% (for applicable years) 2.0% / 2.10% (for applicable years) 1997 - 3.433% prior to 1997/3.333% thereafter 2.10% prior to 1997/2.0% thereafter 1998 - 3.508% prior to 1998/3.333% thereafter 2.175% prior to 1998/2.0% thereafter 1999 - 3.583% prior to 2000/3.333% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 3.658% prior to 2002/3.333% thereafter 2.325% prior to 2002/2.0% thereafter 2008 - 3.733% prior to 2008/3.333% thereafter 2.40% prior to 2008/2.0% thereafter
Class A Retiree Benefit Formula	Variable	Standard - Alternate 1982 - 1.0% - 2.0% 1987 - 1.05% - 2.0% 1988 - 1.1% - 2.0% 1989 - 1.25% - 2.0% 1991 - 1.30% - 2.0% 1994 - 1.30%/1.40% (for applicable years) - 2.0% 1997 - 1.40% prior to 1997/1.30% thereafter - 2.0% 1998 - 1.475% prior to 1998/1.30% thereafter - 2.0% 1999 - 1.55% prior to 2000/1.30% thereafter 2.25% prior to 2000/2.0% thereafter 2000 - 1.625% prior to 2002/1.30% thereafter 2.325% prior to 2002/2.0% thereafter 2002 - 1.625% prior to 2002/1.55% thereafter 2.325% prior to 2002/2.25% thereafter 2008 - 1.70% prior to 2008/1.55% thereafter 2.40% prior to 2008/2.25% thereafter

Foundation Member
History of Changes in Basic Plan Provisions … *continued*

Provision	Status in 1974	Benefit Change
Improvement Factor	2% Simple	1978 - 2.0% compound (Indexed) 1982 - 3.0% compound (Indexed) 1988 - 3.0% compound 1993 - 3.1% compound 1998 - 3.1% compound (Prorated) 2010 - 2.1% to 3.1% compound, dependent on funded status of system and CPI 2017 - 0.5% to 3.5% compound, indexed to CPI-W and based on SDRS funded status
Early Retirement		
* Class A	Early retirement: age 55 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1986 - Rule of 85 (age 60) 1989 - Removed "at work" limitation 1991 - Rule of 85 (age 58) 1993 - Rule of 85 (age 55)
* Class B Public Safety	Early retirement: age 45 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1982 - Early retirement age for new members: age 50 1989 - Early retirement: age 45 for all Class B Public Safety members 1991 - Age 50/25 years of service 1998 - Rule of 75 (age 45)
* Class B Judicial	Early retirement: age 55 with 6% per year reduction	1978 - Reduction decreased to 3% per year 1990 - Rule of 80 (age 55)
Resolution of Member Issues		
* Uncredited Service - Class A - Class B	Buy at cost	1989 - Buy at 75% of cost 2004 - Depending on age, buy at 12 to 30% of pay 2004 - Depending on age, buy at 16 to 45% of pay
* Class B Public Safety	Contribution rate: 6% Normal retirement: age 55	1978 - Contribution rate increased to 8% 1982 - Normal retirement age for current members: age 55 Normal retirement age for new members: age 60 Contribution rate for current members: increasing 1/8 of 1% to 10% Contribution rate for new members: 8% 1989 - Normal retirement: age 55 for all Class B Public Safety members Normal contribution rate 8% for all Class B Public Safety members
* Class B Judicial	Normal retirement: age 65 Contribution rate: 6%	1978 - Contribution rate increased to 8% 1982 - Contribution rate increasing 1/8 of 1% to 10% 1989 - Contribution rate capped at 9%
* Short-service Employees - Deferred benefits	Frozen	1986 - Indexed
- Refunds	Employee contributions plus 5%	1986 - Interest indexed to the T-bill rate; 5% minimum, 10% maximum 1995 - Portable Retirement Option (PRO): refund all or a percentage of employer contributions based on years of service for PRO members 1998 - PRO for all members
* Spouse Benefit	50% of retirement allowance	1999 - 60% of retirement allowance

Generational Member History of Basic Plan Provisions	
Provision	**Status in 2017**
Benefit Formulas	
* Class A	1.80%
* Class B Public Safety	2.0%
* Class B Judicial	3.333% / 2.0%
Improvement Factor	0.5% to 3.5% compound, indexed to CPI-W and based on SDRS funded status
Early Retirement	
* Class A	Early retirement: age 57 with 5% per year reduction
* Class B Public Safety	Early retirement: age 47 with 5% per year reduction
* Class B Judicial	Early retirement: age 57 with 5% per year reduction
Spouse Benefit	At retirement, married member may elect single-life benefit, 60% joint and survivor benefit, or 100% joint and survivor benefit

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