



SDRS Outlook

Membership Newsletter • August 2016

Defining Compensation and Determining Final Average Compensation

The South Dakota Retirement System (SDRS) is structured to consider a consistent definition of includable compensation for all members. Allowing non-includable compensation to be used for purposes of SDRS contributions would artificially inflate a member's final average compensation, which in turn would inflate the member's SDRS benefit, resulting in increased liabilities for SDRS that could impair the sustainability of the system for all members.

It is important for SDRS to have an equitable distribution of benefits to its members. It is also important for SDRS to be a sustainable pension plan. To protect the benefits of all members, anomalies in reported pay will be closely monitored by SDRS to ensure contributions are remitted only on compensation as defined in law.

Compensation for SDRS purposes is defined in South Dakota Codified Law 3-12-47.6 as gross wages paid to you by your employer for personal services rendered during the credited service period. This section of law further elaborates on what is and is not considered compensation. SDRS contributions are to be made only on amounts defined as compensation. Your final average compensation is used in calculating SDRS retirement, disability, and survivor benefits.

What Is Considered Compensation

Compensation includes amounts reported as wages, tips, and other compensation on your federal form W-2, except amounts that are excluded by law. Compensation also includes the amount of member contributions made on and after July 1, 1984, and any amount contributed to any tax-deferred retirement plan such as a 401, 403, 408, and 457 plan, including the SDRS Supplemental Retirement Plan (SRP).

Tax-deferred credited service purchase payments are included as compensation, as well as any amount

contributed to a plan described in section 125 of the Internal Revenue Code. It is also important to note that the Internal Revenue Service limits the amount of compensation that SDRS can consider for very highly paid employees hired after June 30, 1996. If you are affected by this limitation, SDRS will notify you.

What Is Not Considered Compensation

Compensation does not include travel, meals, lodging, moving or other expenses which are reimbursed by an employer. Lump-sum payments for sick and/or annual leave and payments for insurance coverage of any kind or any other employee benefit by an employer on behalf of an employee or an employee and dependents are not considered compensation.

The definition of compensation also specifically excludes any amount paid in a one-time lump-sum payment or over a period of time based on your retirement or an agreement to retire in the future. Additionally, payments made upon dismissal or severance, worker's compensation payments, and payments contingent on you terminating employment at a specified time in the future, paid or payable in either a lump-sum or over a period of time, are not included as compensation.

How Final Average Compensation is Determined

Final average compensation, or FAC, is used in calculating SDRS benefits. Your FAC is determined by averaging your highest 12 consecutive calendar quarters of compensation in the last 40 quarters of SDRS membership. This translates to the average of your highest three consecutive years of pay out of your last 10 years of service. It should be noted that your FAC is subject to adjustments for extraordinary payments in the final year or quarter of active SDRS membership.

Outlook

Interview

...With Elmer Brinkman
on Internal Control...

Outlook: During the 2016 South Dakota Legislative Session, legislation was enacted regarding internal control within state government. What does internal control encompass and why is it necessary?

Brinkman: Internal control is part of good government and involves everything an entity does to achieve its goals and objectives. Internal control is designed to prevent bad things from happening as well as foster good things to occur. The purpose of internal control is to provide reasonable assurance that government will be successful and achieve its objectives.

Internal controls enable an organization, such as SDRS, to run effectively and efficiently by allowing management to focus on its objectives. The work of the SDRS Board of Trustees and staff is centered on service to the SDRS membership. In our service, we are obliged to be proper stewards of your retirement system to ensure its integrity. SDRS is more than just paying retirement benefits; there are many moving parts that make our system successful. Internal controls allow us to manage those moving parts to meet the Board's objectives.

Outlook: For SDRS, what objectives are important? How are objectives met?

Brinkman: The SDRS Board of Trustees' main objective is to maintain a sound, sustainable pension plan within the fixed resources available. While this is a comprehensive objective, extensive research and due diligence is performed by the Board on an ongoing basis to safeguard the financial integrity of SDRS. For more than 40 years, SDRS has been managed conservatively to preserve the system for multiple generations of public employees and it is important that SDRS remains sustainable over the long-term for the public employees of the future.

In meeting its main objective, SDRS has three areas of "checks and balances". First, SDRS has a goal of operating in an effective and efficient manner. SDRS



Elmer Brinkman

Mr. Brinkman is a county commissioner for Codington County. He serves as Chair of the SDRS Board of Trustees and represents county commissioners. In the following interview, Mr. Brinkman discusses internal control.

strives to be cost-effective in the administration of the plan provisions as well as the retirement planning services provided to its membership. To measure this, CEM Benchmarking, Inc. evaluates SDRS in a multitude of areas and compares SDRS' costs to the costs incurred by its peers. Year after year, this evaluation has shown SDRS to be providing services at an exceptionally low cost compared to other retirement systems worldwide.

Second, SDRS works to meet reporting objectives by providing members and stakeholders with reliable and timely financial and non-financial information. For SDRS, just as with any government entity, transparency and accountability are important. SDRS' external auditors, Eide Bailly, perform annual audits of SDRS' financial statements, which are presented in a comprehensive annual financial report and available to the public.

Third, SDRS adheres to applicable state and federal laws and regulations. As necessary, SDRS may engage with other entities for their expertise and guidance in areas such as the Internal Revenue Code and federal law compliance.

Outlook: What is the State Board of Internal Control and what does it do?

Brinkman: The legislation enacted in 2016 established the State Board of Internal Control, which is comprised of state government cabinet members, as well as representatives of state agencies and state boards and commissions. SDRS is participating in the meetings of this newly established state board.

The State Board of Internal Control works together to build on policies and procedures relative to internal controls, codes of conduct, and conflicts of interest. Through its participation with the State Board of Internal Control, SDRS is able to network and gather information from other areas of government to enrich its own policies, procedures, techniques, and mechanisms, thus ensuring that SDRS' objectives continue to be met.

SDRS Travel Schedule

INDIVIDUAL RETIREMENT COUNSELING SCHEDULE

DATE	LOCATION	ADDRESS	30-MINUTE SESSION TIMES AVAILABLE
08/09/2016	Watertown, Watertown Event Center	1901 9th Avenue SW	2:00—8:00 PM
08/10/2016	Watertown, Watertown Event Center	1901 9th Avenue SW	8:00 AM—8:00 PM
08/30/2016	Redfield, Senior Center	728 Main Street	2:00—8:00 PM
09/13/2016	Parker, Community Building	299 N Main	2:00—8:00 PM
09/20/2016	Brookings, Swiftel Center	824 32nd Avenue	2:00—8:00 PM
09/21/2016	Brookings, Swiftel Center	824 32nd Avenue	8:00 AM—8:00 PM
09/27/2016	Vermillion, Holiday Inn Express	1200 N Dakota	2:00—8:00 PM
09/28/2016	Vermillion, Holiday Inn Express	1200 N Dakota	8:00 AM—8:00 PM

Additional dates and locations available on the SDRS website at www.sdrs.sd.gov.

Planning for your retirement is important. If you are nearing retirement, call the SDRS office toll-free at 1-888-605-SDRS (7377) to schedule an appointment when retirement planners will be in your area. If you are unable to attend an individual counseling session when SDRS retirement planners will be near you, please call the SDRS office at your convenience to discuss your retirement plans via telephone.

PRE-RETIREMENT PLANNING WORKSHOPS & RETIREE FORUMS

DATE	LOCATION	ADDRESS	TIME
08/16/2016	Yankton, Kelly Inn	1607 E Highway 50	At Each Location
09/06/2016	Spearfish, Holiday Inn	I-90 Exit 14	Retiree Forums: 3:00—4:00 PM
11/01/2016	Mitchell, Highland Conference Center	2000 Highland Way	Pre-Retirement Workshops:
12/06/2016	Brookings, Swiftel Center	824 32nd Avenue	5:30—8:00 PM

EARLY & MID-CAREER WORKSHOPS

DATE	LOCATION	ADDRESS	TIME
08/23/2016	Sioux Falls, Holiday Inn City Centre	100 W 8th Street	
11/07/2016	Rapid City, Hilton Garden Inn	815 E Mall Drive	At Each Location 6:00—8:00 PM
12/14/2016	Brookings, Swiftel Center	824 32nd Avenue	

WOMEN & FINANCIAL PLANNING WORKSHOPS

DATE	LOCATION	ADDRESS	TIME
08/24/2016	Rapid City, Hilton Garden Inn	815 E Mall Drive	
09/12/2016	Aberdeen, Dakota Event Center	720 Lamont Street	At Each Location 5:15—7:30 PM
11/09/2016	Pierre, Red Rossa	808 W Sioux Avenue	
12/05/2016	Spearfish, Holiday Inn	I-90 Exit 14	

To register for a workshop or forum, visit www.sdrs.sd.gov or call 1-888-605-SDRS (7377).



South Dakota Retirement System

P.O. Box 1098
Pierre, SD 57501

SDRS Welcomes New Board Members

New to the SDRS Board of Trustees is Kathryn Greenaway. Ms. Greenaway, a Yankton School Board member, ran unopposed in the 2016 SDRS Board of Trustee election to represent school boards. She replaces retiring Board member David Merrill. Her term on the Board began July 1, 2016.

Due to the retirement of Board member Bonnie Mehlbrech, a teacher representative, the Board of Trustees was charged with filling this vacancy. At its June meeting, the Board cast votes to select a new teacher representative from those who submitted résumés for the position.

Penny Brunken was selected to serve out the remainder of Ms. Mehlbrech's term as teacher representative. Ms. Brunken, a teacher with the Sioux Falls School District, began her term on July 1, 2016. The term will conclude on July 1, 2018.

This year's election also resulted in two incumbent members holding their seats to continue their long-standing commitment to SDRS members. Returning to the Board for another four-year term are Louise Loban and Eric Stroeder. Ms. Loban represents Board of Regents employees and began serving on the SDRS

Board in 1990. Mr. Stroeder has represented state employees since 2004.

Each membership group elects its representative(s) to the SDRS Board of Trustees. In 2017, county employees, elected municipal officials, retirees, state employees, and teachers will elect their respective representative to the Board.

Additional information regarding the SDRS Board of Trustees can be found on the SDRS website, www.sdrs.sd.gov.



Kathryn Greenaway
School Boards
Representative



Penny Brunken
Teacher
Representative

The information presented in Outlook is neither a legal reference nor a complete statement of South Dakota laws or administrative rules. In any conflict between this information and South Dakota laws or administrative rules, the laws and administrative rules shall prevail.

Outlook is produced to communicate the plan provisions, changes in law, and issues of interest to members of the South Dakota Retirement System. It is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, municipal employees, and other local units and employees. 50,000 copies of this document were printed on recycled paper by SDRS at a cost of \$0.082 per document.