South Dakota Retirement System
SDRS
1974-2014
40 years dedicated to serving public employees

South Dakota Retirement System:

The Guiding Principles, Objectives, and Goals of a Consolidated Plan

Reflecting on 40 Years of Consolidation

January 2014

Prepared by the SDRS Board of Trustees

An adaptation of “A Statement of Principles and Direction for the Plan Design of SDRS” dated November 1994, as revised July 2005.

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Mission Statement

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

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

Introduction

The consolidation of South Dakota's 11 public retirement plans in 1974 was a bold initiative by the Legislature and Governor to establish a uniform public policy for retirement benefits for South Dakota's public employees. The consolidation into the South Dakota Retirement System (SDRS) was intended to eventually improve benefits for employees and meet the following long-term objectives:

- Actuarial soundness and sustainability
- Adequate benefit levels
- Fixed employer and member funding
- Efficient and cost-effective administration and investment management

The SDRS Board of Trustees has endorsed these fundamental long-term objectives and has built on them by adopting specific complementary objectives and goals so the progress of SDRS can be independently evaluated and measured.

SDRS has focused its energies and resources on meeting each of its long-term objectives, including developing innovative approaches to its plan design that are consistent with workforce changes while remaining within its statutorily fixed funding. It systematically researches and studies "best practices" in the industry, diligently involves its participating employers and members in determining how new approaches can be adapted to SDRS, and carefully communicates the rationale behind those approaches.

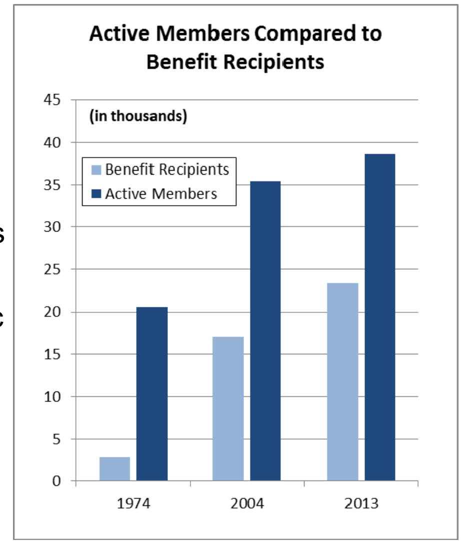
Nearly 40 years have now passed since SDRS was created. This white paper is a documentation of the evolution, growth, and progress of SDRS in meeting both general and specific objectives. It starts with a list of key SDRS Board of Trustee positions with regard to the management of SDRS that has guided the Board's goals and actions. It also presents the advantages of SDRS' hybrid plan design as well as the challenges for the future.

The Evolution of a System

When the Legislature created SDRS in 1974, the system faced a number of challenges and uncertainties. Benefits, though substantially better than those of the plans SDRS replaced, were marginal, and the 2,900 retired members received even lower benefits. Assets were low and obligations were high. The ability of the system to meet its obligations and become adequately funded based on the fixed statutory funding was unknown. Moreover, efficient and cost-effective administration was, as yet, a theory with no hard facts to give it substance. In short, success in meeting the long-term objectives was uncertain.

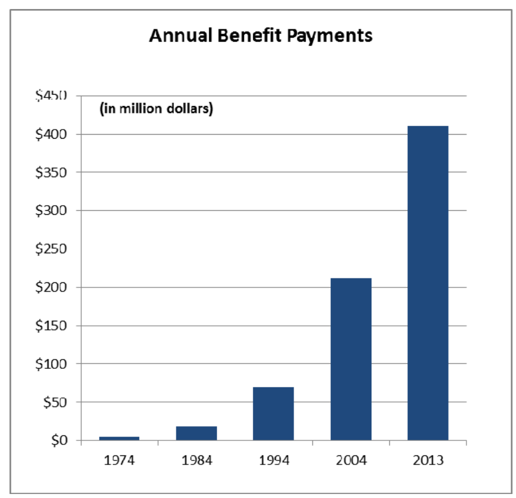
As months and years elapsed, the landscape has changed. Growth — sometimes phenomenal growth — became the hallmark of SDRS.

SDRS Growth



Membership

For example, in 1974, 23,500 public employees were part of the system, of which 2,900 were receiving benefits. By 2013, the membership had jumped to 77,103, including 15,182 terminated employees entitled to future benefits and 23,327 benefit recipients — more than three times the number of total members and more than eight times the number of benefit recipients. Almost all public employees in South Dakota now participate in SDRS.

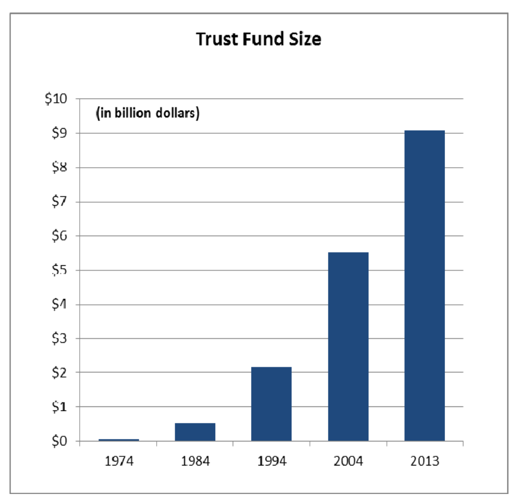


Benefit Payments

In 1976, less than $5M was paid to the SDRS retirees. In 2013, these payments had increased to over $411M. The increase in benefit payments was largely due to benefit improvements, the SDRS cost-of-living adjustment (COLA), and the significantly higher number of retirees receiving benefits.

Trust Fund

As the system's membership and benefits have grown, its trust fund, which is to be used for the exclusive benefit of SDRS members and their beneficiaries, has grown exponentially. Beginning in 1974 at $56 million, the SDRS trust fund stood at $9.1 billion in 2013. The SDRS trust fund, along with future member and employer contributions and investment earnings, are the resources available to pay the system's benefits. This growth has been fueled by the commitment made by employers and members to pay the statutory contribution requirements along with the exceptional long-term investment returns earned by the South Dakota Investment Council. Since inception, SDRS investment returns have averaged 10.6 percent prior to consideration of investment expenses.



But, growth alone does not signal success for SDRS in meeting its objectives. Before assessing that progress, let's look at the key positions and policies adopted by the SDRS Board of Trustees in managing the system and recommending policy changes.

Key Positions Adopted by the SDRS Board of Trustees

The SDRS Board of Trustees administers the system and makes recommendations for changes in accordance with the following key positions:

- A consolidated hybrid retirement plan is the most cost-efficient, equitable approach to providing retirement benefits for South Dakota's public employees. The Board will support proposals that strengthen consolidation and oppose those that weaken it.

- The SDRS retirement model is based on defined benefit features because they deliver the best value to the members at retirement. In addition, SDRS includes features most commonly found in defined contribution plans to provide meaningful benefits for employees who leave before retirement. The result is a hybrid retirement system.

- By statute, the SDRS Trust Fund shall be used exclusively for the benefit of members and their beneficiaries. The Board will support investment and any other strategies that advance this statutory requirement and oppose proposals that compromise the integrity of the trust fund.

- The Board has adopted a detailed Funding Policy to meet its most important responsibility—the continuing actuarial soundness of SDRS. The Funding Policy includes:
    - Funding Objectives
    - Establishment of a Cushion and a Reserve
    - Consideration of benefit improvements
    - Consideration of corrective actions

- Long-term benefit goals for SDRS are established in accordance with national practices and member needs.

- The Board is committed to providing income replacement benefits in accordance with its long-term goals to give SDRS members and their families the opportunity to achieve financial security at retirement, disability or death.

- The primary long-term benefit goal is replacing 55 percent of pay for full-career members at retirement. Social Security benefits and additional member savings for retirement will be required for members to maintain their standard of living in retirement.

- Monthly lifetime benefit payments are consistent with SDRS' mission to provide continuous income throughout a member's retirement years.

- The Board will only support future benefit improvements if its financial guidelines for improving benefits are met and if those benefits are in accordance with its long-term goals.

- SDRS captures all net favorable investment and other experience in the Cushion and ultimately in the Reserve for Funding of Long-Term Benefit Goals to protect the system against unfavorable experience and to pre-fund benefit improvements when appropriate.

- The Board will not propose benefit improvements to SDRS that create Unfunded Liabilities.

- When SDRS' experience is favorable and the Funding Policy deems benefit improvements possible, benefit increases for all SDRS members, active and retired, may be proposed and pre-funded from the Reserve.

- The hybrid features of SDRS are appropriate and sound, and the present ratio between benefits for long-term and short-term members is appropriate. The Board's recommendations for future benefit improvements will seek to maintain this ratio.

- There are compelling reasons for the existence of Class A and Class B membership groups within SDRS. The Board will oppose any proposal to eliminate or combine these classifications.

- Each trustee is responsible to represent the best interests of the system, considering all employer and employee members, as well as representing the interests of the trustee's respective constituent group.

- A decision by the majority of the Board is official board policy.

- In exercising its fiduciary and managerial responsibilities for the system, the Board retains appointing and supervisory authority over its Executive Director/Administrator

- The Board is committed to providing employers and members with the exceptional customer service at a cost-effective basis

- Optional participation in retirement plans results in a mix of ages, health conditions, salary levels and years of service that adversely affects the financial strength of a system. The Board supports mandatory participation in SDRS and will oppose any modification that would make participation in SDRS optional.

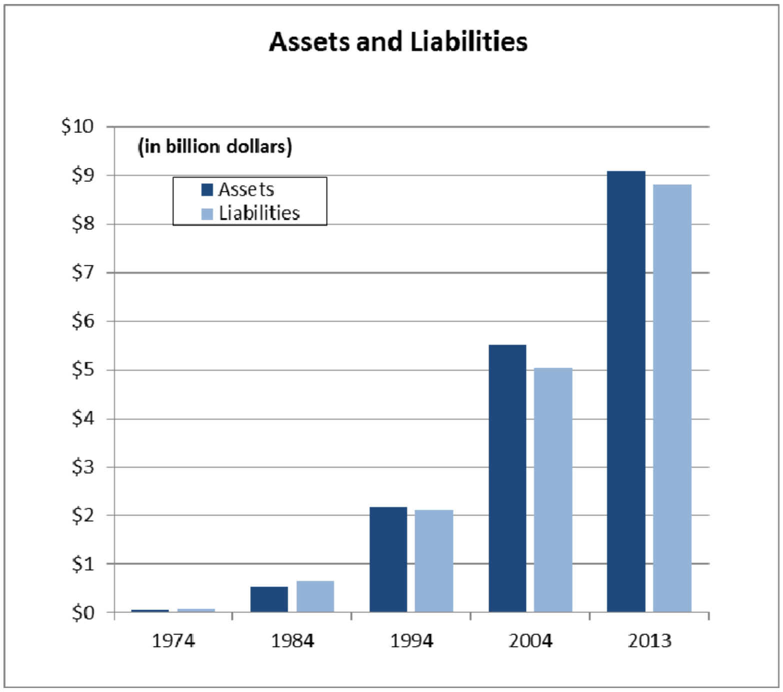
SDRS' progress in meeting its general objectives and specific goals is reviewed in the following section.

Objective:
Actuarial Soundness and Sustainability

Key Funding Policy Goals:

- **Maintain a fully funded system with no unfunded liabilities**
- **Meet the actuarially required contributions with the fixed statutory funding rates**

While increases in membership, trust fund balances, benefit improvements, and benefit payments demonstrate the system's growth, the best measure of SDRS' financial strength comes from a comparison of its assets and liabilities. In 1974, SDRS assets covered only 53 percent of the system's liabilities. By 2013, however, that ratio had climbed to 103 percent based on the market value of assets - making SDRS one of the most financially sound systems in the nation.



Retirement systems' Unfunded Liabilities are now shown on the employer balance sheets and may affect the credit rating of the employer and the employer's borrowing costs. SDRS has no Unfunded Liabilities, which is a unique accomplishment.

SDRS' actuarially required contribution rates are evaluated each year by an actuary to determine if they are equal to or less than the statutorily fixed member and employer contribution rates. This standard has been met every year in the history of SDRS, with the exception of 2009 due to the severity of the economic recession. In 2010, SDRS recommended corrective actions that resulted in this goal being again met that year and each year thereafter.

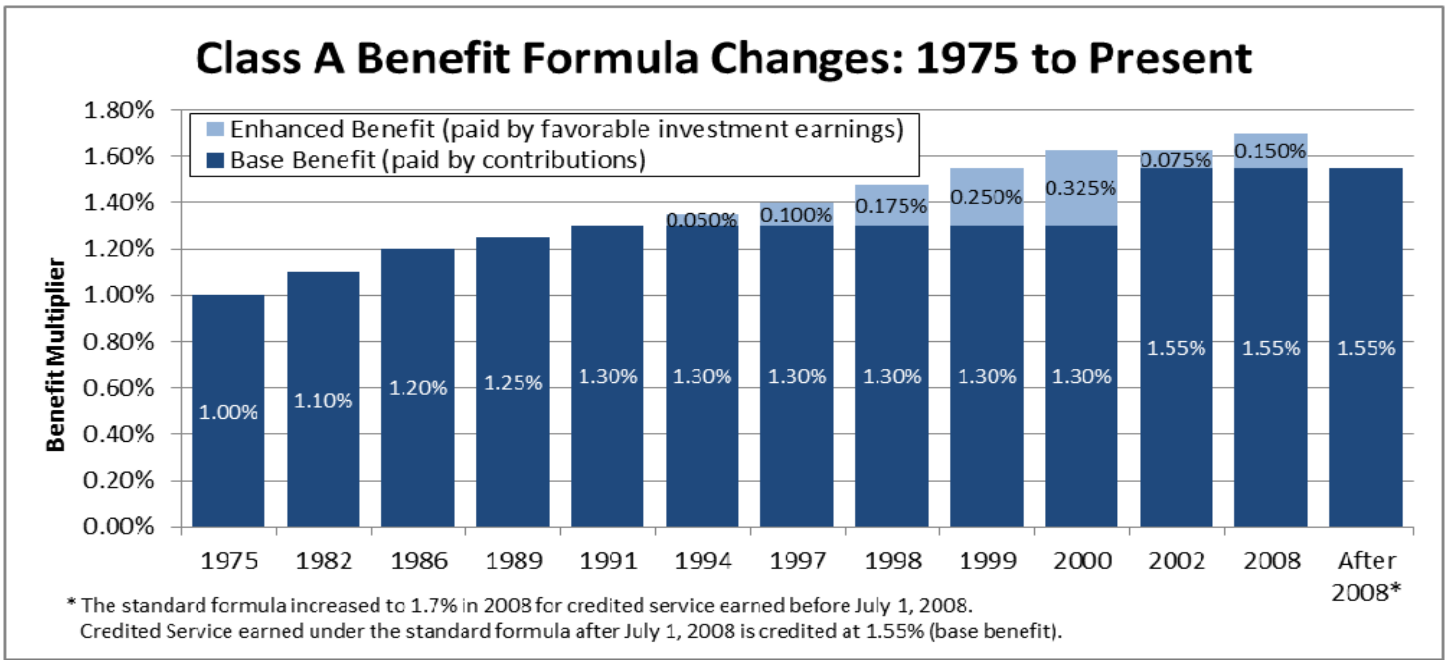
Objective: Adequate Benefits

Key Long-Term Benefit Goals:

- **Provide benefit increases if experience is favorable and affordable under Funding Policy**
- **Provide income replacement at retirement of 55 percent of final average pay for career employees**

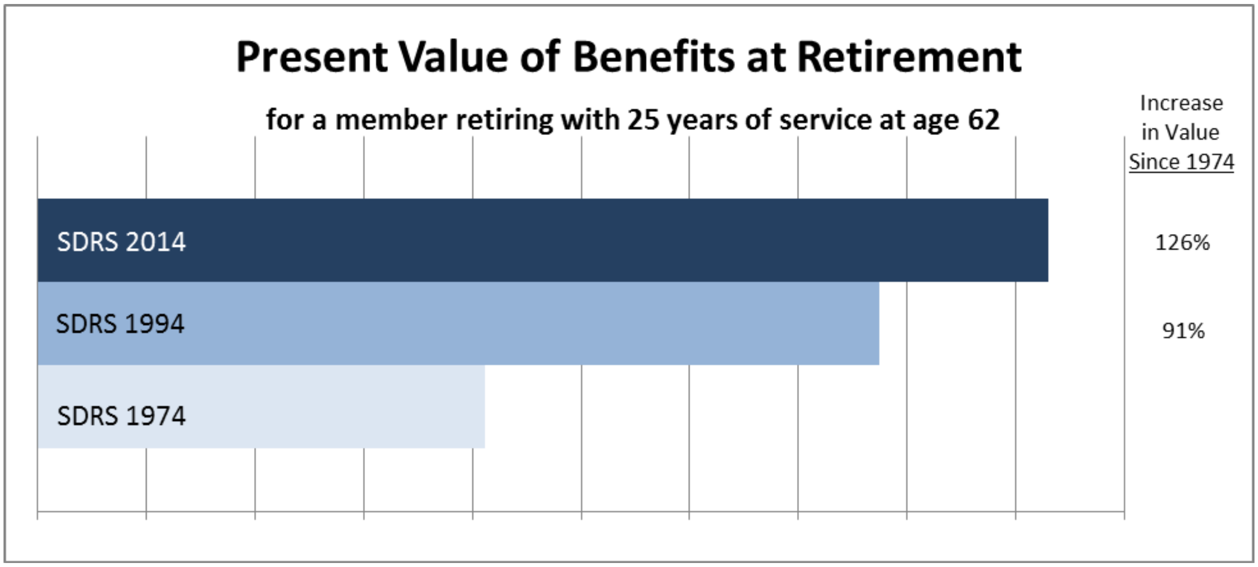
Benefit Increases

Outstanding investment performance has allowed SDRS to recommend numerous benefit improvements during its first 40 years. This has brought SDRS benefits closer to meeting the Board's benefit adequacy goals. For example, the Class A benefit formula, which began with a 1.0 percent multiplier, rose to 1.7 percent for service prior to July 1, 2008, an increase of 70 percent.



The annual COLA has expanded from a 2.0 percent simple rate to a compounded rate ranging from 2.1 percent to 3.1 percent (indexed to the Consumer Price Index [CPI] and the SDRS market value funded status of the prior fiscal year), reductions for early retirement have been lessened considerably, and benefits have been significantly increased for members who leave employment before retirement, as explained later.

These benefit improvements have dramatically increased the value of SDRS to its members, as shown on the next page. For example, based on current actuarial assumptions, a member in 1994 would have earned a benefit with a future value 91 percent higher than the original 1974 SDRS benefit. By 2014, that value had increased to 126 percent above its original amount.

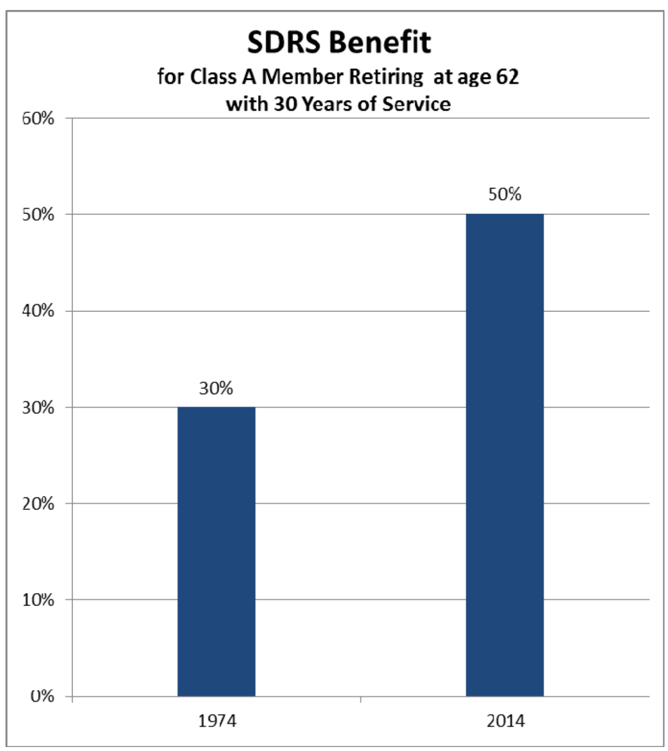


Because benefit improvements were largely possible due to outstanding long-term investment performances, the SDRS Board of Trustees, recommended that all members, including current retirees, benefit from the increases. This very unusual practice recognized the need for improvements for those members who had previously retired, as well as the currently active members.

As a result, SDRS' $411M in annual benefit payments now rivals the payrolls of the very largest corporations in the state.

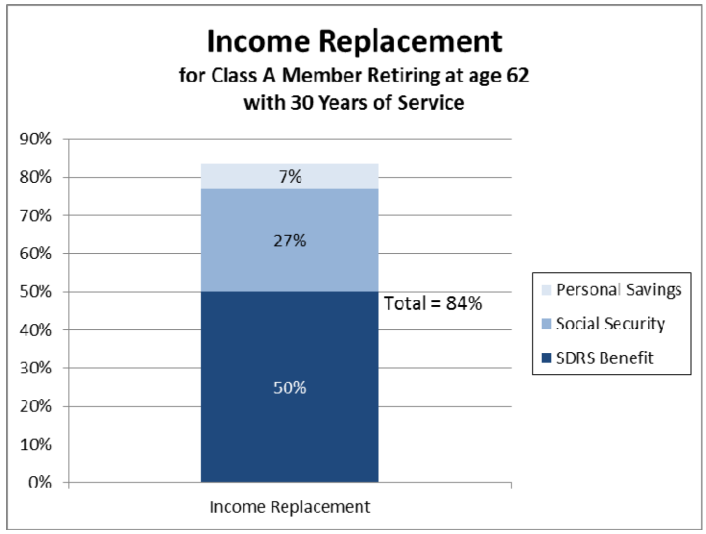
Income Replacement

The increase in SDRS base benefits after 2002 and the increases in the benefit formulas for service before 2008 have moved SDRS much closer to meeting the most important retirement goal - an income replacement objective of 55 percent of pay for career employees. 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.



SDRS advises members that a total income replacement of 85 percent will likely be required to maintain their standard of living in retirement. SDRS retirement benefits, along with Social Security benefits, should meet most of that need for a career employee. SDRS has also recommended that members adopt a minimum personal savings goal of at least one times their annual pay at retirement to provide additional income and added financial security during their retirement years.

Career employees retiring in 2013 at age 62 will nearly meet the 85 percent total income replacement goal as shown in the chart to the right.



While benefit improvements have contributed significantly to meeting the SDRS benefit adequacy goals, the 55 percent income replacement objective has not yet been met for many career employees. Without additional changes, those employees may need to work up to 35 years to achieve that goal in the future.

Nevertheless, the 85 percent total income replacement goal will nearly be met for most members who retire at age 62 or later with 30 years of service or more and who have accumulated personal savings as recommended. Retirement after age 62 will increase both SDRS and Social Security benefits, as well as accumulated personal savings. Additional personal savings above the one times annual pay will likely be necessary for members who retire earlier, have less service, or who have additional expenses in retirement. Additional retirement income may also be required to offset any additional changes in Social Security, rising healthcare costs, or high inflation.

Objective: Fixed Employer and Member Funding

Key Goals:

- **SDRS is managed within the fixed statutory resources available**
- **SDRS will not recommend increases in the statutory rates to solve funding needs**

Public employers' budgets for employee compensation and benefits require a predictable cost. A major criticism of public retirement plans without fixed contributions is that the employer contributions must be increased, sometimes significantly increased, to meet the funding needs of the system. Alternatively, if the contributions are not increased, the Unfunded Liabilities grow and the sustainability of the system is threatened.

SDRS has been funded and managed with fixed employer and member contributions since consolidation and increases have not been recommended by SDRS to meet the system's funding needs.

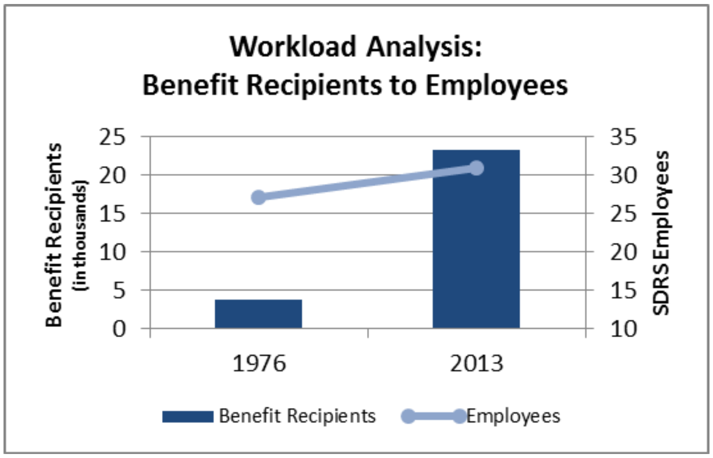
The SDRS Funding Policy and statutes describe the adverse financial conditions in which corrective actions are required to be recommended by the Board to the Legislature. Such conditions existed in 2009 and corrective actions in the form of benefit changes were recommended by SDRS to bring the system back into actuarial balance in 2010.

Objective: Administrative Effectiveness and Efficiency

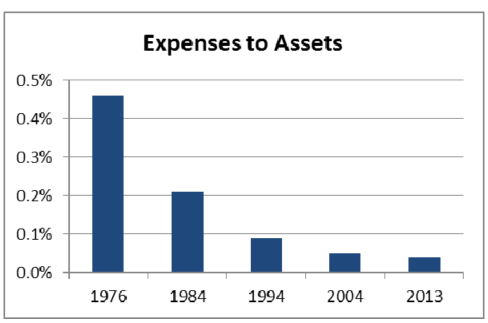
Key Goals:

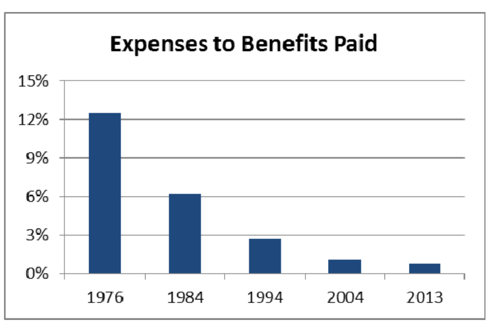
- **SDRS total administrative costs will be less than 3 percent of annual contributions and will decline as a percent of assets and benefits paid**
- **The administration will compare favorably in cost and quality of services with other systems**

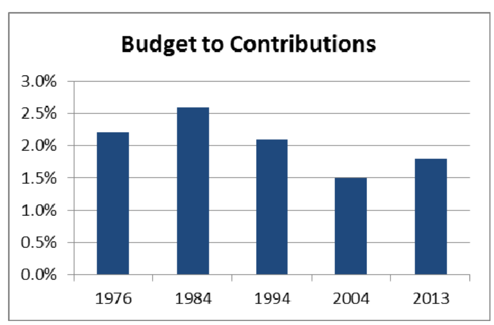
The efficiency of SDRS' administrative structure has more than kept up with the growth in the system's membership and subsequent need for expanded services. In 1976 SDRS employed 27 full-time employees. Currently, SDRS employs 33 full-time employees. Between 1976 and 2013, the workload of the system has increased dramatically, largely due to the growth in membership and the quality and range of services offered. For example, the number of SDRS benefit recipients - the segment of the membership that generates the most work - increased from 3,842 to 23,327 during this period. As the Baby-Boomers begin to retire, employee workload will likely increase again.



Three other key indicators of administrative performance highlight the system's efficiency. The first is the ratio of SDRS' annual expenses compared to the assets in the trust fund. The second is the ratio of expenses compared to the amount of benefits SDRS pays during a year. Both of these indicators have dropped by more than 90 percent since 1976. The third compares the size of the system's operating budget to the amount of contributions made by employers and members. While state law allows 3 percent of contributions to be expended for administration, the FY2013 budget approved by the Legislature (as well as actual expenses) was only 1.8 percent of contributions.







CEM Benchmarking, an independent evaluation organization, conducted an extensive review of SDRS administrative services and costs in 2009 and concluded:

- The SDRS administrative cost was $51 per active and retired member compared to an average of $79 for similar systems—35 percent less

- The SDRS service score (a measure of quality and quantity of services) was 80 compared to an average of 73

Effective Management of SDRS: A Collaborative Effort

Growth, planning, and important adjustments in design have resulted in SDRS successfully meeting its established objectives and goals. This success has occurred through conservative management of the system and a thoughtful decision-making process carried out by the SDRS Board of Trustees, the SDRS staff, and the Legislature.

Historically, retirement benefit issues have been referred to the Retirement Laws Committees of the Legislature for recommendation to the Legislature as a whole. Similarly, such issues are referred by the Retirement Laws Committees to the SDRS Board of Trustees for analysis and recommendations before the committees take action. This practice has been critical to the success of SDRS.

The effectiveness of this process is even more apparent after an assessment of the advantages of the unique design of SDRS for the financial future of the membership.

SDRS has evolved from a traditional defined benefit retirement system by making changes to the plan design to meet the needs of both short and long service members while continuing to be managed with fixed contributions. As a result, SDRS has evolved into a hybrid retirement system incorporating the most attractive features of a defined benefit (DB) plan and a defined contribution (DC) plan.[1]

A comparison of the characteristics of the two approaches to providing retirement income is helpful in understanding SDRS' unique design.

Defined Benefit Plans: Designed to Benefit Long-Term Employees

The benefit structure of DB plans favor long-term employees and offer a number of distinct advantages to career employees and employers:

- Targeted lifetime income to meet employee retirement needs
- Maximized retirement income
- Tool for employee retention
- Inflation protection for benefits
- Lower administrative costs
- Disability and survivor benefits

Defined Contribution Plans: Designed to Benefit Short-Term Employees

On the other hand, DC plans offer advantages to short-term employees:

- Portable
- Equitable
- Easy to understand
- Certain and predictable costs
- Investment return directly improves benefits
- Consistent with "deferred wages" concept
- Employee expected to manage risk through investment options

However, the value of these plans depend exclusively on the dollars contributed to the plan and the earnings gained from investments.

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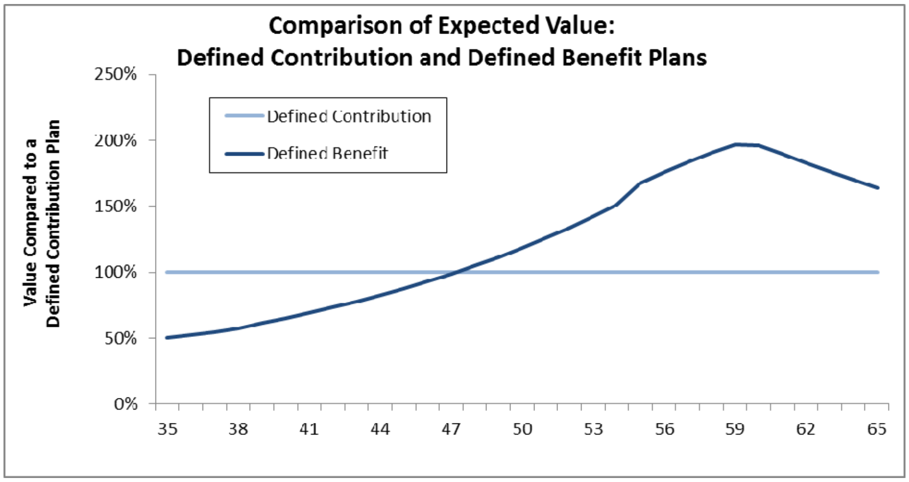
[1] A DB plan is an employer or board managed retirement plan in which income for retirement is provided to the employee for life based on years of service, final salary, and a benefit formula. A DC plan is usually an employee-managed retirement plan in which income for retirement is determined by the total dollars contributed to an account by an employee and an employer, plus the dollars an employee earns on the investment of those contributions.

A Comparison of Benefits from Defined Benefit and Defined Contribution Plans

The fundamental differences in DB and DC plans favor different kinds of employees. But how significant are these differences and does one approach consistently produce higher benefits?

A general example of how DB and DC plans distribute benefits differently follows below, *assuming the net contributions and investment return, after expenses, are identical over the member's lifetime*. Simply put, a DB plan distributes smaller benefits to employees who leave earlier in their career and larger benefits to those who stay until retirement. In this example the pool of available funds is the same, but the allocation to employees is different.



However, this simplified example ignores the following:

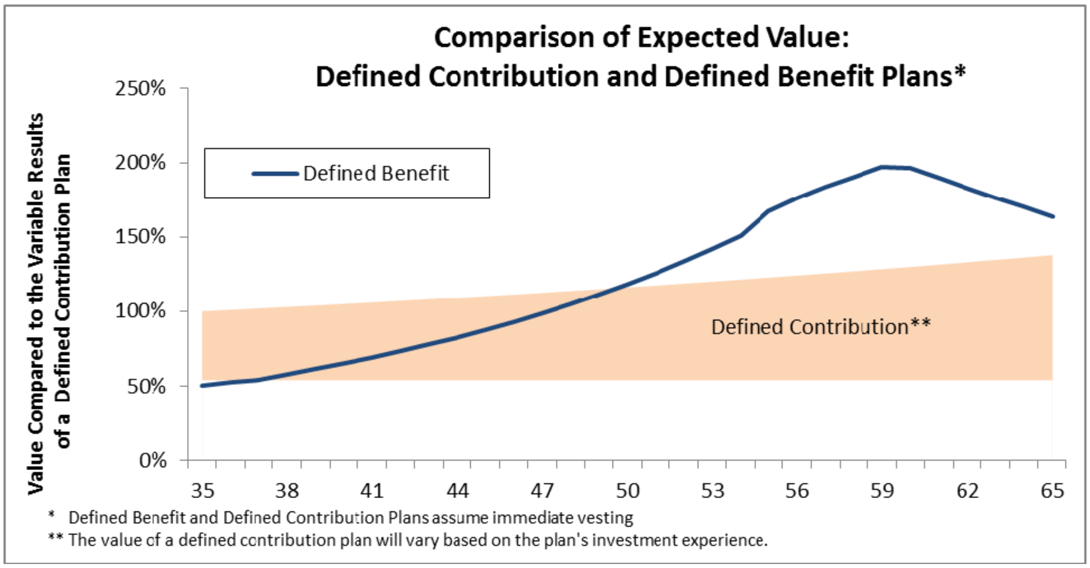
- Professionally managed investment and asset allocation decisions in DB plans consistently produce superior results compared to member based decisions in DC plans
- DC plans require higher administrative costs
- At retirement, members must manage their distributions from DC plans to provide income throughout their retirement or purchase an annuity.
    - If managed, the asset allocation must be more conservative to minimize risk. To avoid running out of funds, distributions must be delayed. Both of these result in reduced benefits.
    - If an annuity is purchased, costs for administration, risk charges, insurance company profit, and expected returns from fixed income investments will increase annuity purchase rates, particularly in a low interest rate environment, resulting in lower lifetime benefits payable.
- Disability and survivor income replacement benefits before retirement in DB plans frequently exceed the account balance in a DC plan

An analysis published by the National Institute on Retirement Security[2] concluded these factors resulted in a 46 percent lower cost to deliver the same level of retirement income in a DB plan compared to a DC plan.

[2] A Better Bang for the Buck, The Economic Efficiencies of Defined Benefit Plans, Almeida and Fornia, August 2008

On the other hand, employees participating in DC plans benefit directly and immediately when investment returns are good, but also suffer during periods of low returns or even losses.

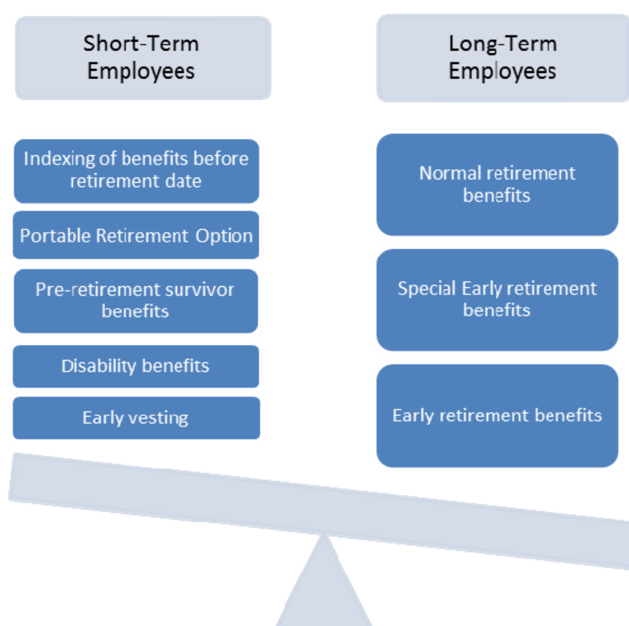
These factors result in a wide variability in the potential value of a DC plan, as shown below. The low-end of the range of DC plan benefit values reflect the findings discussed on the previous page. The high-end of the range would occur is the investment return earned on the DC balance was 2 percent greater than the long-term expectation until retirement and then equal to the long-term expectation during retirement.



These comparisons illustrate the efficiencies of DB plans in producing predictable retirement income but also show that DB plans may provide smaller benefits for short-service members than DC plans. These conclusions have guided the Board's recommendations to incorporate the advantages of DC plans for short-service members into SDRS.

Why SDRS' Hybrid Plan is Superior

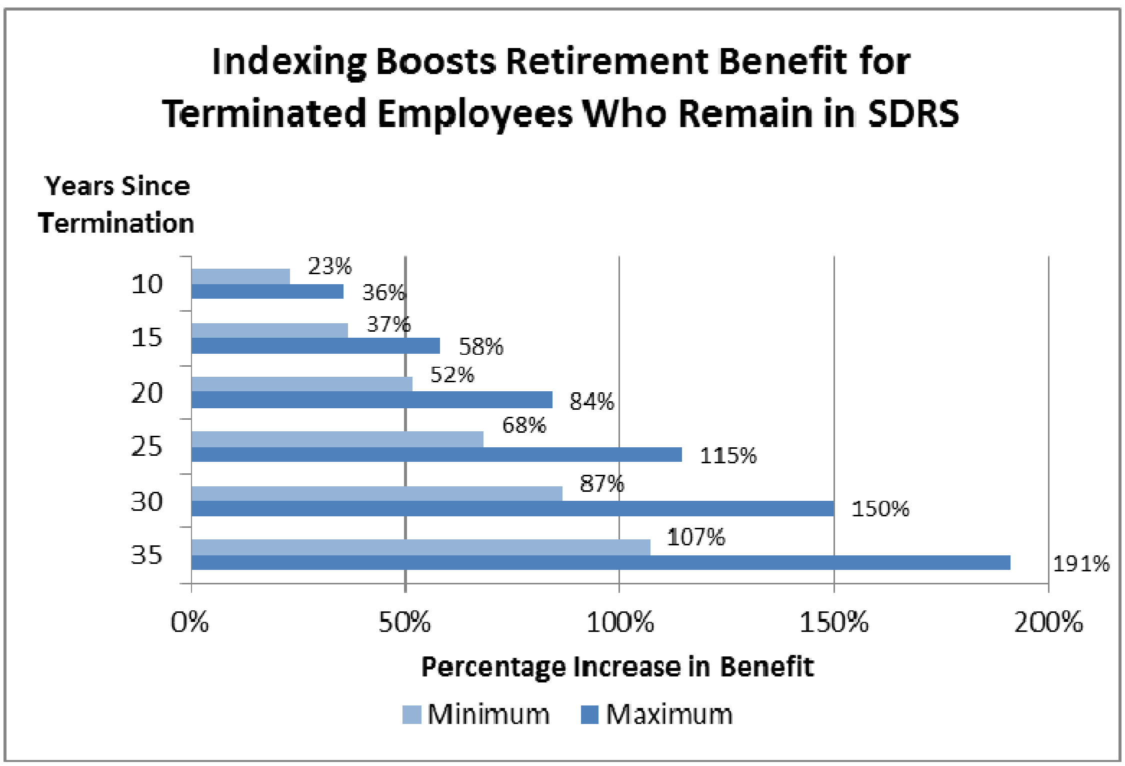
At its inception, SDRS' fundamental mission was clear: to provide a high level of retirement benefits to long-term, career employees. A benefit formula that calculated benefits for all years of service based on recent high years of salary and a provision that required members who withdrew from the system to forfeit all employer contributions tilted the plan's benefits toward the member who continued with SDRS until retirement. The emphasis was on creating an incentive for experienced public workers to stay with their employer.



But even in its earliest years, SDRS recognized that its membership consists of short-term and long-term employees of varying ages. SDRS contained provisions that took into consideration the special circumstances of its members who became disabled as well as the needs of members' surviving families upon the member's death. Moreover, the Board's recommendations for benefit improvements over the 40-year period reflect awareness that the membership is highly diverse. To accommodate such a diverse membership, SDRS benefit improvements have included earlier vesting, improved early retirement benefits, benefit increases to retirees as well as active members, and a higher COLA.

The most significant improvements for short-term members, however, were the indexing of the benefits for vested[3] members who terminate before retirement with the cost-of-living adjustment and the Portable Retirement Option (PRO).

The indexing feature results in a meaningful retirement benefit to any member who is vested, even if their years of service are limited, because it steadily increases the SDRS benefit from the time members leave their job until retirement. In most DB plans, benefits are "frozen" from the time the member leaves until benefits begin, which results in a loss of purchasing power. Indexing the benefits earned by inactive members corrects a serious deficiency in DB plans for short-term members and any member that leaves employment before retirement.



[3] Three years of service are required to vest in the SDRS retirement benefit. Under the PRO, SDRS vests members in 50 percent of the employer contributions immediately and 85 percent after three years.

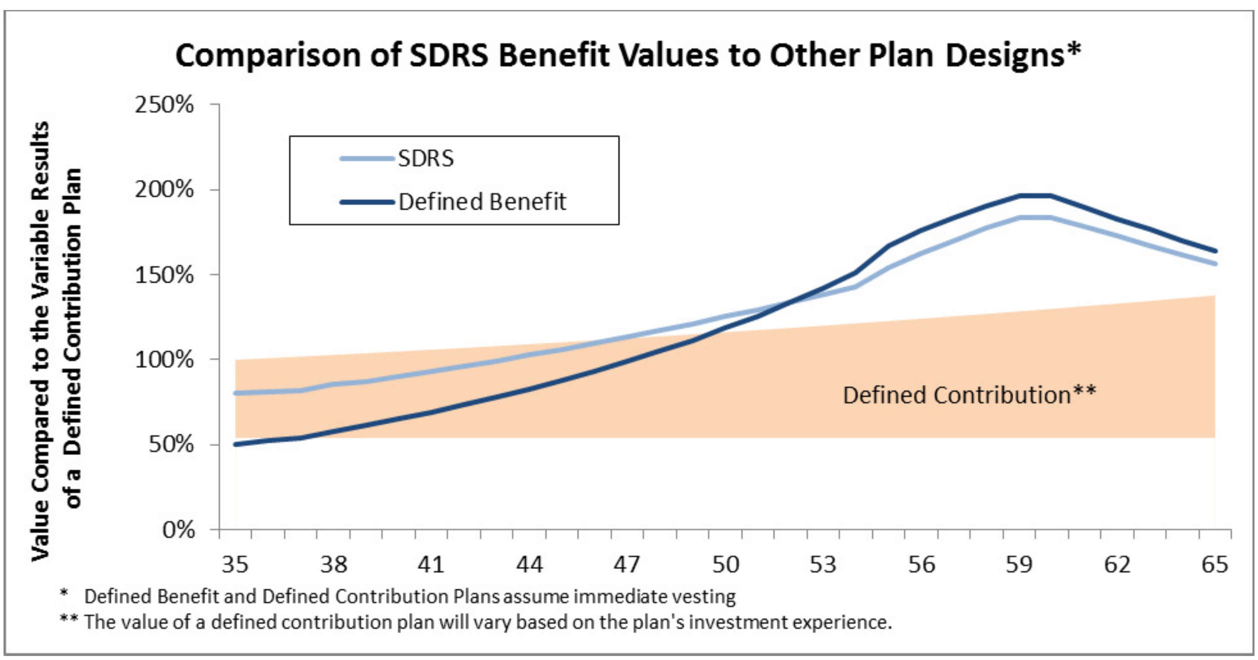
The PRO gives members who leave before retirement the option of withdrawing 100 percent of employee contributions and 85 percent of employer contributions (50 percent for members with less than three years of service), plus credited interest.

The end result of this improvement is the portability of SDRS members' funds - one of the most attractive features of DC plans. Portability, or the ability to carry a retirement benefit from job to job without loss of purchasing power, has become critical to recruitment as employees become more mobile. The PRO, early vesting, and indexing of SDRS benefits match the portability available under DC plans and far exceed that of DB plans.

The following exhibit illustrates the key advantages of the SDRS retirement model:

- SDRS has evolved by providing meaningful benefits to short-service as well as career members by incorporating some features most often found in DC plants.
- The efficiency and predictability of DB features have been maintained.
- The unpredictable retirement income from DC plans is avoided.
- Favorable experience (as illustrated at the top-end of the DC values) has produced numerous benefit improvements in SDRS benefits in the past when SDRS guidelines have been met.

With the addition of these benefits for all members, SDRS has added even greater flexibility and value. Even members who do not remain in the system for three years will still be eligible to receive a PRO benefit equal to a refund of 50 percent of employer contributions, plus all of their employee contributions and credited interest.



Why Making SDRS Optional Won't Work

Given the differences between DB plans and DC plans, it may appear logical to give employees a choice of either type of plan.

However, an analysis of the consequences of offering optional plans indicates otherwise. For example, the wisdom of offering newly hired employees a choice between two very different economic alternatives is questionable. The chance that these employees would make uninformed or misguided decisions would be high unless participating employers offered extensive significant and objective education about the likely economic results of each choice.

In addition, higher costs associated with an optional approach include increased administrative expenses, employee education programs, and most significantly for plans like SDRS, potentially higher funding costs.

Part of SDRS' strength comes from a mix of characteristics and risks that result from all new employees becoming SDRS members. If SDRS became optional, it is likely that adverse selection would alter the mix, thus making the plan more costly.

SDRS offers vested members who leave employment a choice between the PRO or a retirement benefit that is indexed from the time the member terminates employment to the time the member's retirement benefit is initiated. In most cases, the value of the SDRS lifetime retirement benefit will far exceed the lump-sum value of the PRO.

Optional retirement programs have been tried in other states, resulting in very low participation in the DC program. Clearly the vast majority of public employees highly value the advantages of DB plan features.

Summary

Over the last 40 years, the Board of Trustees had adopted policies and initiated a wide range of changes in both plan provisions and benefit levels to meet its objectives. This history of change and success has been possible because of the vision and long-term commitment to SDRS by the Board, the Retirement Laws Committees, the Legislature, and the Executive Branch. This combined effort has resulted in a sound, well-funded consolidated plan that efficiently provides quality benefits to South Dakota's public employees at an employer cost well below the national average.

The Board of Trustees continues planning for the challenges of the future, including:

- Maintaining and improving the fully funded status of SDRS to weather economic downturns
- Coping with improved life expectancies and market volatility
- Evolving with changes in the SDRS membership and employer workforce issues
- Strengthening the confidence in, and support of, SDRS
- If and when benefit improvements are possible, considering improvements that would vary based on the investment results of SDRS

Appendix: History of Changes in Basic Plan Provisions

Provision	Status in 1974	Benefit Change
Benefit Formula * 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 - 1.7% 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 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
* 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 - 2.4% 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 2.4% 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 - 2.4% prior to 2008/2.25% thereafter, less other public benefits
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

History of Changes in Basic Plan Provisions—*continued*

Provision	Status in 1974	Benefit Change
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)
Optional Spouse Coverage	1.0% of Compensation	1978 - 0.8% of compensation 2004 - 1.2% of compensation 2010 - 1.5% of compensation
Final Average Compensation Caps	Last quarter cap 125% of any previous quarter; four quarter average cap 115% of any previous quarter	2004 - Last quarter cap = 115% four quarter average cap = 110% 2005 - Last quarter cap = 105% four quarter average cap = 105%
Special Pay Plan	Termination pay made directly to member with SS, SDRS and income taxes deducted	2004 - Termination pay to Special Pay Plan without SS, SDRS or income tax deductions
Purchasing Uncredited		
* Class A	Buy at 10% of Compensation	1989 - Buy at 7.5% of Compensation 2002 - Buy at 9% of Compensation 2004 - Buy at Rate Dependent on Age and Varying from 12% to 30% of Compensation
* Class B Public Safety	Buy at 12% of Compensation	1978 - Buy at 16% of Compensation 1982 - Current Members Maximum of 20% of Compensation; New Members 16% of Compensation 1989 - Buy at 12% of Compensation 2004 - Buy at Rate Dependent on Age and Varying from 16% to 40% of Compensation
* Class B Judicial	Buy at 12% of Compensation	1978 - Buy at 16% of Compensation 1982 - Buy at Maximum 20% of Compensation 1989 - Buy at 13.5% of Compensation 2004 - Buy at Rate Dependent on Age and Varying from 18% to 45% of Compensation
Contribution Rate		
* Class A	5%	2002 - 6%
* Class B Public Safety	6%	1978 - 8% 1982 - For current member increasing 1/8 of 1% to maximum of 10%; for new members 8% 1989 - 8% for all members
* Class B Judicial	6%	1978 - 8% 1982 - 1/8 of 1% to maximum of 10% 1989 - capped at 9%
Normal Retirement Age for Class B Public Safety	Age 55	1982 - New members age 60 1989 - Age 55 for all members

History of Changes in Basic Plan Provisions—*continued*

Provision	Status in 1974	Benefit Change
Refund of Accumulated Contributions	Member contributions only	1986 - Guaranteed refund of the balance of all employer/member contributions if member dies after retirement 1995 - Portable Retirement Option (PRO) - For PRO members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service 1998 - Portable Retirement Option (PRO) - For all members withdrawing prior to retirement, a refund of all or a percentage of employer/member contributions based on years of service 2010 - For members withdrawing prior to retirement, a refund of all member contributions and a percentage of employer contributions based on
Interest on Accumulated Contributions	5% on member contributions only	1986 - No greater than 90% of the 91-day T-bill rate; 5% minimum, 10% maximum 2004 - No greater than 90% of the 91-day T-bill rate; maximum, the actuarially assumed rate of investment return
Retire/Return to Work		
* Normal or Special Early Retirement	- Benefits, including the COLA, paid during reemployment without adjustment - Rehired member treated as continuing member - Add-on benefit paid at re-retirement considers all periods of employment	2004 - Benefits paid during reemployment but COLA eliminated (except for Class B Public Safety member who is rehired as Class A member) - Rehired member treated as new member - Add-on benefit paid at re-retirement considers reemployment period only - Retired/Rehires prior to July 1, 2004 grandfathered under current law 2010 - Three continuous month minimum termination period; 15% benefit reduction during reemployment; continued COLA elimination during reemployment; no 2nd SDRS benefit accrual; member contributions to SRP/employer
* Early Retirement	- Benefits, Including the COLA suspended during reemployment - Rehired member treated as continuing member - Add-on benefit paid at re-retirement considers all periods of employment	2004 - Benefits, including the COLA, suspended during reemployment - Rehired member treated as new member - Add-on benefit paid at re-retirement considers reemployment period only 2010 - Benefits, including the COLA, suspended during reemployment; no 2nd SDRS benefit accrual; member contributions to SRP/employer
Compensation Basis for Benefit Calculations	- Retirement benefit based on final average compensation (three-year average) - Disability and survivor benefits (for members who die before retirement) based on highest one-year pay	2004 - All SDRS benefits (retirement, disability, and survivor) based on final average compensation
Eligibility Requirements		
* Vested Retirement Benefits	- Five years of credited service that includes purchased service	1998 - Three years of credited service including purchased service 2004 - Three years of contributory service, does not include purchased service
* Disability Benefits	- Five years of credited service unless disabled in an accident at work, then no specific amount of credited service is required	1998 - Three years of credited service including purchased service 2004 - Three years of contributory service since reentry into SDRS unless disabled in an accident at work, then no specific amount of contributory service is required

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